

BUSINESS MEETING  
BEFORE THE  
CALIFORNIA ENERGY RESOURCES CONSERVATION  
AND DEVELOPMENT COMMISSION

In the Matter of:                     )  
  )  
Special Business Meeting            )  
  )  
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CALIFORNIA ENERGY COMMISSION  
HEARING ROOM A  
1516 NINTH STREET  
SACRAMENTO, CALIFORNIA

MONDAY, NOVEMBER 21, 2005

10:07 A.M.

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COMMISSIONERS PRESENT

Joseph Desmond, Chairperson

Jackalyne Pfannenstiel, Vice Chairperson

Arthur H. Rosenfeld

James D. Boyd

John L. Geesman

STAFF PRESENT

Scott Matthews, Acting Executive Director

William Chamberlain, Chief Counsel

Song Her, Acting Secretariat

Kevin Kennedy

PUBLIC ADVISER

Nick Bartsch

ALSO PRESENT

Scott R. Hawley  
Watson Cogeneration Company

Bruce McLaughlin, Attorney  
Braun & Blaising, P.C.  
California Municipal Utilities Association

Rod S. Aoki  
Alcantar & Kahl, LLP

Michael Carrington  
Carrington & Company

Mitchell W. Pratt  
Clean Energy

Michael Eaves  
California Natural Gas Vehicle Coalition

ALSO PRESENT

Brian Brittsan  
Composite Technology Corporation

Phillip J. Muller  
SCD Energy Solutions

Les Guliassi  
Pacific Gas and Electric Company

Joe Sparano  
Western States Petroleum Association

Carl E. Walter  
University of California (retired)

Charles Boardman

Edwin D. Sayre  
Engineering Consultant  
representing Advocates for Clean Responsible  
Energy

Gary Schoonyan  
Pacific Gas and Electric Company

Mary Ann Dickinson  
California Urban Water Conservation Council

Frank D. Cady, Esq., Attorney  
Cady and Pardee  
Lassen Municipal Utility District

Joseph Kloberdanz  
San Diego Gas and Electric Company  
Southern California Gas Company  
Sempra Energy Utilities

Tom Fulks  
Mightycomm  
Diesel Technology Forum

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## P R O C E E D I N G S

10:07 a.m.

CHAIRPERSON DESMOND: I'd like to welcome everyone here today at this special business meeting to consider the adoption of the 2005 Integrated Energy Policy Report, the related Transmittal Report and the Strategic Investment Plan.

If you would please rise and join me in reciting the Pledge of Allegiance.

(Whereupon the Pledge of Allegiance was recited in unison.)

CHAIRPERSON DESMOND: We have three items on the agenda. I'll make a note we're going to change the order and take up the policy report first, and the transmittal report will be second. And the Strategic Investment Plan will be the third item.

But we're going to begin with the public comment section first. But before we do that first let me acknowledge and thank my fellow Commissioners, Presiding Member John Geesman, as well as Associate Member Jim Boyd, for what is an unbelievable amount of work over nearly 57 or '8 days now, if we count this.

1                   COMMISSIONER GEESMAN: This is number  
2       60.

3                   CHAIRPERSON DESMOND: Number 60. Well,  
4       I have to say that in general the document  
5       represents a tremendous step forward in terms of  
6       the original 2003 and then the 2004 IEPR. And the  
7       more we do this I think the better we get.

8                   It reflects the contributions of I want  
9       to say 25,000 pages in the docket --

10                  COMMISSIONER GEESMAN: 30,000 now.

11                  CHAIRPERSON DESMOND: Thank you.

12                  (Laughter.)

13                  CHAIRPERSON DESMOND: Rather than me  
14       guess at the report, how many separate consultant  
15       reports, 25, 50, 60 --

16                  COMMISSIONER GEESMAN: More than --  
17       Kevin will have that in a little while.

18                  CHAIRPERSON DESMOND: Kevin will have  
19       that. But I have to also say that in addition to  
20       acknowledging the hard work of the Commissioners,  
21       I also want to acknowledge the hard work of all  
22       the staff. Particularly the authors who have  
23       spent countless hours editing, re-editing and  
24       writing in order to try and drive towards the  
25       appropriate feel and balance, and sift through all

1       that information. It is no easy task. And my  
2       sincere appreciation and acknowledgement for all  
3       of them, as well as the other Commissioners, too,  
4       who have had the opportunity to provide comments  
5       into this process.

6               So, with that, why don't we begin by the  
7       public comment. And I will take these in the  
8       order in which we have them.

9               First up is Scott Hawley, Performance  
10      Manager for Watson Cogeneration.

11              MR. HAWLEY: Good morning. I'm here  
12      representing the cogeneration industry and Watson  
13      Cogeneration Company.

14              Over two years ago I attended a hearing  
15      in El Segundo to address the shortcomings in the  
16      initial draft of the 2003 Energy Policy Report.  
17      There was hardly a mention of cogeneration, and we  
18      were lumped in with distributed generation almost  
19      as an after-thought. And yet 17 percent, nearly a  
20      sixth of California's power comes from  
21      cogeneration.

22              Cogeneration is and continues to be one  
23      of the state's most efficient, environmentally  
24      sound and reliable sources of power.

25              Since that time this Commission has

1 thoughtfully and diligently worked to rectify this  
2 oversight. After an exhaustive study, the  
3 California Energy Commission has released a  
4 blueprint outlining the policy changes necessary  
5 to renew vital cogeneration contracts, and keep  
6 cogeneration facilities up and running.

7 It's imperative that the California  
8 Public Utilities Commission implement those  
9 policies in order to meet the state's growing  
10 electricity needs. Without CPUC action the  
11 reliability and security of the state's energy  
12 supply and our industrial infrastructure is at  
13 risk. And the cost to the environment would be  
14 considerable.

15 Californians will face higher energy  
16 bills, more power outages, more pollution and more  
17 greenhouse gas emissions.

18 Many of the cogeneration contracts that  
19 were signed in the early '80s are coming up for  
20 renewal. The Energy Commission has outlined  
21 policy changes and actions that must be taken in  
22 order for those contracts to be renewed at  
23 reasonable rates.

24 Those include removing the cloud of  
25 secrecy around utility costs and prices;



1 standardizing an open and fair contracting  
2 process; amongst others.

3 Again, it's the CPUC's turn to act at  
4 this point. We cannot afford to lose one of the  
5 state's most promising power sources.

6 As part of a comprehensive push for more  
7 energy conservation and efficiency, the CPUC can  
8 and must implement a fair, open and focused  
9 cogeneration policy.

10 I ask for the California Energy  
11 Commission to work together with the Public  
12 Utilities Commission to make that happen.

13 Thank you.

14 CHAIRPERSON DESMOND: Thank you, Scott.  
15 I was remiss as I was busy thanking my fellow  
16 Commissioners and staff. I should also note I'd  
17 like to extend sincere appreciation to all the  
18 members of the public and the stakeholders who  
19 have sat through these many meetings and  
20 contributed so importantly to the information and  
21 to the record. So, thank you very much.

22 And next up is Bruce McLaughlin with the  
23 California Municipal Utilities Association.

24 MR. McLAUGHLIN: Good morning,  
25 Commissioners. I have a few paragraphs to read,

1 one from the IEPR, itself; and then a number from  
2 one of the consultant reports.

3 In the draft report on RPS we have a  
4 footnote that made it into the final report, the  
5 publicly owned electric utilities and the  
6 California renewable portfolio standard, it's a  
7 consultant report that was put out in November of  
8 2005.

9 One of the recommendations I believe is  
10 not supported by the record or the data in this  
11 proceeding, and that is this. Applying consistent  
12 statewide RPS rules to POUs will require  
13 legislative action. The need to bring POUs into  
14 the RPS is underscored by data indicating that the  
15 volume of renewables in California's electricity  
16 mix is actually dropped since 2002 from 11 percent  
17 to 10.2 percent.

18 Based on data submitted by IOUs on their  
19 progress toward RPS compliance, this shortfall  
20 appears to be from non-IOU retail sellers such as  
21 POUs and ESPs. That's in the IEPR.

22 Here is what your consultant report  
23 said, pages 13 and 14: POU targets are, on  
24 average, more aggressive than those of the IOUs.

25 Page 23: Information collected in

1 earlier sections suggests that many POUs are  
2 proactively pursuing renewable energy goals that  
3 are reasonably consistent with, if not even more  
4 aggressive than the state's overall 20 percent  
5 target.

6 Page 20: Nonetheless, contrary to  
7 popular belief" -- I like that -- "the underlying  
8 conclusion is that POUs, as a whole, have been  
9 somewhat more aggressive than the renewable energy  
10 contracting in recent years than have the state's  
11 IOUs, on average.

12 Page 15: One conclusion is in order.  
13 Self-established POU renewable energy targets do  
14 not appear to be grossly out of line with, or  
15 substantially more lenient than the 20 percent by  
16 2010 target applied to the state's IOUs. In fact,  
17 though the POU targets are not truly comparable to  
18 the enforced RPSs applied to the IOUs, the above  
19 analysis suggests that the POUs' internal targets  
20 are, on average, more aggressive than those of the  
21 IOUs in terms of incremental renewable energy  
22 needs and percentage terms.

23 And lastly, on page 23: It is important  
24 to recognize that a key finding of this paper is  
25 that the California POUs appear to be taking more

1 aggressive actions, at least so far, than is  
2 commonly assumed.

3 I suggest that the common assumption got  
4 into the IEPR, and yet this document is going to  
5 the Legislature and the Governor. And they should  
6 know what your consultant, at least appears to,  
7 believe is true.

8 Also the next steps from this consultant  
9 suggests that they will talk to NCPA, SCPPA, CMUA.  
10 We welcome that. We welcome that. We would enjoy  
11 working with the Energy Commission to ferret out  
12 the facts and proceed forward in achieving greater  
13 renewable resources throughout the State of  
14 California.

15 Thank you very much.

16 CHAIRPERSON DESMOND: Thank you, Bruce,  
17 I appreciate that. Commissioner, did you want to  
18 respond?

19 COMMISSIONER GEESMAN: Well, I certainly  
20 agree with Bruce's observations that I think a lot  
21 of us read the consultant report, and in fact,  
22 commissioned the consultant report with those  
23 thoughts in mind.

24 We ought not to allow to go unnoticed  
25 the fact that here in recent months we've had a

1 real paradigm shift, if you will, in the City of  
2 Los Angeles. And the City of Los Angeles'  
3 performance, I think, has largely colored the view  
4 of both this Commission, and many other observers  
5 of the municipal sector in general.

6 In our 2004 report we tried to  
7 distinguish from that. But I think what's going  
8 on there now is extremely exciting. New mayor,  
9 new board of governors at the Department, hold out  
10 some real promise to move forward.

11 And I think that one of our highest  
12 priorities next year should be working closely  
13 with the Department.

14 I do note that there are -- and, Bruce,  
15 you and I talked about this the other day on the  
16 street -- there are a large number of senior staff  
17 and management at the Department that don't think  
18 the board knows what it's doing, and don't agree  
19 with that shift in policy.

20 So this is likely to be a developing  
21 story over the course of the next couple of years.  
22 But, your points are very well taken. I think the  
23 consultant report will hopefully go a long way to  
24 correcting some of the mis-impression of the  
25 performance of your smaller members.

1                   And the most significant thing is the  
2                   change in Los Angeles. I think it's tremendous.

3                   MR. McLAUGHLIN: Thank you,  
4                   Commissioners.

5                   CHAIRPERSON DESMOND: Thank you. Next  
6                   is Rod Aoki from the CAC, EPUC.

7                   MR. AOKI: Yes. Thank you, Mr.  
8                   Chairman. Good morning; my name is Rod Aoki, and  
9                   I'm here today for the Cogeneration Association of  
10                  California and the Energy Producers and Users  
11                  Coalition, CAC and EPUC.

12                  First of all, Mr. Chairman and  
13                  Commissioners, at a time when existing and new  
14                  cogeneration or CHP projects really are at a  
15                  cross-roads in the state as to the determination  
16                  of their future and their future fit into the  
17                  state's energy portfolio, it was this Commission  
18                  that took the time and effort to really understand  
19                  the issues facing CHP, and propose real solutions  
20                  to the IEPR and the Transmittal Report to the real  
21                  problems and obstacles faced by CHP today.

22                  I was asked by the CAC and EPUC members  
23                  to thank all of you, the Committee and the  
24                  Committee Staff very much for all of the effort  
25                  that has gone into understanding these issues and

1 to the proposals that are contained in the report.

2 The positive recommendations for CHP  
3 contained in the report and the Transmittal Report  
4 are consistent with federal policy, state policy  
5 and the Energy Action Plan II. And we fully  
6 support those recommendations and would urge you  
7 to adopt them.

8 As you're aware, though, the key to  
9 really obtaining these options for CHP, both  
10 existing and new, going into the future will be  
11 implementation of the policies at both the CPUC,  
12 and to an extent, with the California ISO.

13 It's frankly going to be a battle, as  
14 you can imagine. And some examples of this, just  
15 to let you know where we are, in the ongoing,  
16 long-term QF policy proceeding and avoided cost  
17 proceeding ongoing at the CPUC, there's already  
18 been a motion to strike any testimony referring to  
19 the IEPR on grounds of bias of this Commission,  
20 which we will be defending vigorously and opposing  
21 on the 30th of this month.

22 There's also been interpretations of the  
23 recommendations for CHP as incorrectly, only  
24 applying to facilities which are smaller than 20  
25 megawatts, and limiting the size of the

1 recommendations application. We will also be  
2 dealing with those.

3 So there will be a number of issues, and  
4 it'll be hard-fought. We look forward to working  
5 with the Commission and staff and whatever  
6 assistance we might be able to receive from you in  
7 getting these implemented with both the CPUC and  
8 the ISO.

9 And, again, thank you for all of your  
10 effort.

11 CHAIRPERSON DESMOND: Thank you, Mr.  
12 Aoki. Next is Michael Carrington from Carrington  
13 & Company.

14 MR. CARRINGTON: Thank you, Mr.  
15 Chairman, Commissioners. It's a pleasure to be  
16 back here to follow up on my comments that I made  
17 at the October 6th hearing.

18 I wanted to follow up in that regard,  
19 and some conversations I've had with some of the  
20 staff in looking at the draft report as it exists  
21 now.

22 What I wanted to comment on today was  
23 what I would call, perhaps, in the context of this  
24 report being kind of a macropolicy document, I  
25 wanted to talk about perhaps targeting policy.



1 And I have some suggested language that I'd like  
2 to offer to address that. Let me read that first  
3 and then explain a little bit about the  
4 significance of it.

5 In chapter 4 on page 62 near the bottom  
6 of the page, before the section entitled,  
7 distributed generation and cogeneration, insert  
8 the following paragraphs:

9 "Some of the key concerns raised in this  
10 chapter include, one, "existing programs may not  
11 be taking full advantage of opportunities to  
12 further reduce peak electricity demand." That's  
13 on page 55.

14 Number two, "Demand response programs  
15 have failed to deliver savings targets established  
16 by state policymakers for each of the last three  
17 years. They appear unlikely to meet next year's  
18 targets, as well." Also on page 55.

19 Number three, "Energy efficiency is the  
20 first priority in California's loading order."  
21 That's on page 56. "To help address these key  
22 concerns the Commission and staff should pursue  
23 new methodologies and technologies that can impact  
24 energy efficiency. Such efforts should include  
25 review and validation of the new technologies

1 affecting the management of electrical motors that  
2 consume approximately 60 percent of California's  
3 electricity. The staff review should include an  
4 analysis of motor management on peak demand as it  
5 relates to air conditioning units."

6 Then in chapter 4 on page 68, after the  
7 first paragraph insert the following language: In  
8 order to address this chapter's cited needs  
9 relating to distributed generation, stable  
10 electrical supplies, and environmentally  
11 acceptable operations, the Commission and its  
12 staff should pursue efforts to analyze and  
13 validate the efficacy of new technologies  
14 involving closed-cycle pyrogenic gasification  
15 plants that utilize municipal and other solid  
16 waste feedstocks. Such an analysis should include  
17 a report on supply reliability, ease of grid  
18 connection, and environmental benefits."

19 I think this language might be helpful,  
20 as I said, in targeting some things that need to  
21 be done. As I cited these sections from the  
22 report, they serve as kind of an admission of what  
23 we have failed to do so far. And that's to fairly  
24 plainly laid out in the report.

25 That's why I think maybe the targeting

1 approach could help the Commission and the state  
2 achieve a little more precise resolution.

3 In working on this type of project you  
4 are interacting with the Public Utilities  
5 Commission, Cal-EPA and its agencies, and I would  
6 like to make a point that's connected to this,  
7 particularly with the California Integrated Waste  
8 Management Board --

9 CHAIRPERSON DESMOND: Mr. Carrington,  
10 could I ask, did you submit these comments in  
11 writing to the docket?

12 MR. CARRINGTON: I will submit those  
13 comments here today.

14 CHAIRPERSON DESMOND: Well, I mean,  
15 today we're voting on the report. And so the  
16 question is have you already submitted them in the  
17 course of the normal proceedings here with this  
18 docket.

19 MR. CARRINGTON: They were not submitted  
20 to the docket, --

21 CHAIRPERSON DESMOND: Okay.

22 MR. CARRINGTON: -- they were submitted  
23 to the Commission Office.

24 CHAIRPERSON DESMOND: Well, I have to be  
25 honest with you, it will be difficult at this

1 point in time to undergo substantial revisions  
2 based on comments that are being filed at this  
3 point.

4 So, in general, if you would perhaps  
5 submit them in writing, we'll consider those in  
6 future to help shape that work. But, do you have  
7 any general reaction or policy comments to the  
8 document at this point?

9 MR. CARRINGTON: What I have already  
10 stated, that I think we ought to target some more  
11 solutions to achieve the goals.

12 In that regard, the State of New York,  
13 on the generation aspects, for example, as we  
14 speak, the State of New York, through one of its  
15 interagency working groups, is moving aggressively  
16 forward in this area to evaluate.

17 What I was going to comment on was the  
18 Integrated Waste Management Board. They are  
19 required, as you know, to make a report to the  
20 Legislature in that whole realm.

21 And Los Angeles County's waste  
22 management committee, on February 14th, submitted  
23 a letter. And on page 2 of that letter, near the  
24 bottom, one of the points they make is that more  
25 real world data is needed. And the only way to

1       acquire the necessary data is to encourage the  
2       development of demonstration facilities.

3               And I, too, would encourage that  
4       process. And there are even federal funds and  
5       state funds available for that process. And  
6       that's what New York is looking at. And as a  
7       native Californian, I'd hate to see us lose the  
8       leadership and innovation and technology.

9               Thank you.

10              CHAIRPERSON DESMOND: Thank you. I  
11       think those are very good suggestions and we'll  
12       certainly make sure that as the work is done that  
13       they do reflect a focus on specifics.

14              Next is Mr. Mitchell Pratt with Clean  
15       Energy.

16              MR. PRATT: Thank you, Commissioners,  
17       good morning. My name is Mitchell Pratt; I'm Vice  
18       President of Public Affairs and Business  
19       Development for Clean Energy.

20              Clean Energy is North America's leader  
21       in offering clean, natural gas fueling for  
22       vehicles, again throughout North America, coast to  
23       coast in Canada and the U.S. We operate over 160  
24       fueling stations.

25              And I'm here to comment on the

1 transportation section of the IEPR. And  
2 particularly the findings of staff that point to  
3 the lack of feasibility for proceeding with  
4 natural gas.

5 We operate these 160 fueling stations.  
6 Many of those stations were acquired from  
7 utilities. The foundation of the report utilizes  
8 utility economics. All of which didn't make sense  
9 when I was at the utility, and don't make sense  
10 today.

11 They are certainly not the profitable  
12 model that we find in building a new  
13 infrastructure that provides a real alternative to  
14 petroleum fuels. Our model now today is one of an  
15 anchor tenant. It's not based on build-it-and-  
16 they-will-come.

17 The profitability of our model today is  
18 all together different. It's a direct replacement  
19 of moving away from gasoline and diesel fuels to  
20 natural gas. It is a profitable venture, and ever  
21 increasing in its profitable nature, not only for  
22 us, as a station builder, but for our customers,  
23 those fleets that are buying new vehicles.

24 The cost of the new diesel engines, the  
25 cost of natural gas product is increasingly

1 competitive. On a life cycle basis, which is not  
2 included in all of the studies and findings here  
3 that are now before you in this final report, the  
4 fleets are finding an ever-increasing economic  
5 model.

6 We used to joke about the stations that  
7 we had that we'd be really making progress when we  
8 didn't know every customer that filled up at our  
9 stations. Well, today we don't know every  
10 customer. People are finding the economic  
11 advantage of going to natural gas. Not because of  
12 the environmental benefits, which are vastly  
13 understated in the report, make big assumptions  
14 that diesel will just be as clean as natural gas,  
15 and that the future technologies won't continue to  
16 advance on natural gas.

17 They have been doing it because of other  
18 advantages. Moving away because of the need to  
19 shift fuel. But moving away, also, for the price  
20 advantage that is not reflected also in the model.

21 I can hope you imagine that with  
22 investors of ours, we've had utility investors; we  
23 have Mr. Boone Pickens, who's a pretty well known  
24 oil man and done pretty good on his forecasting.  
25 He completely disagrees with the forecast of

1 energy prices here in this model.

2 The forecast of natural gas being higher  
3 than that of diesel in a competitive market is  
4 yours and yours alone, and not to be found  
5 anywhere else.

6 Boone and other investors have made  
7 additional commitment here in this last year to  
8 build an LNG plant here in California, because LNG  
9 is an ever increasingly effective and viable fuel.  
10 It is, again, offering a clean transportation to  
11 those port operations that can't use traps because  
12 they don't get high enough temperatures.

13 Just to wrap this up, because there's a  
14 lot to say on the findings, and simply that we  
15 heartedly disagree. We've provided comments here  
16 for you.

17 The global market is recognizing that  
18 natural gas is a viable and much needed  
19 alternative. Like us, many countries around the  
20 world have a large and solid supply of natural  
21 gas. And the Asian countries, the Middle Eastern,  
22 European and South American countries are moving  
23 toward natural gas. We know that because we know  
24 the programs and policies, and that we've been  
25 solicited to come over into those countries and



1 develop stations.

2 We retain our focus here in North  
3 America. And ask you to direct, in your ultimate  
4 findings, that natural gas be considered. It is  
5 the viable choice with the infrastructure  
6 development that we have, we can offer a  
7 transition to hydrogen.

8 And your staff is finding largely that  
9 we need to pursue only fuels that intermingle,  
10 commingle with diesel and gasoline. We believe  
11 that ultimately the end game, and I've not always  
12 been a supporter of hydrogen, but in the end game,  
13 the long-term pathway is to get to hydrogen.

14 That means that we're going to  
15 ultimately need to transition. Natural gas, the  
16 infrastructure, the way that we're expanding the  
17 infrastructure will ultimately transition society  
18 in a way that effectively, systematically can --  
19 we invest in infrastructure that will ultimately  
20 allow society to transition away from petroleum  
21 and gasoline and diesel.

22 So I ask you to direct staff in your  
23 findings to encourage the expanded use of natural  
24 gas as they are in the L.A. Ports, and other  
25 rulemakings, not only in California, but across

1 the nation.

2 Thank you.

3 CHAIRPERSON DESMOND: Thank you.

4 Commissioner, did you want to respond?

5 COMMISSIONER BOYD: A couple of  
6 comments. As the Chairman of the Transportation  
7 Committee, along with Commissioner Pfannenstiel,  
8 the other member of that committee, and we are,  
9 frankly, interested in all possible alternative  
10 fuels.

11 Please don't read into anything any  
12 particular bias. However, you know, we have had  
13 to close this down based on the data before us.

14 But we have two major deadlines to deal  
15 with alternative fuels in this next year. One is  
16 to provide the Governor, by March 31st, a plan to  
17 deal with alternative fuels; and another is to  
18 respond to the recently passed Assembly Bill 1007,  
19 which asks, by July of or June of 2006, I believe,  
20 for a completely detailed report on alternative  
21 fuels.

22 What I am saying is there's going to be  
23 a fairly full-time effort on the part of this  
24 Commission, through its Transportation Fuels  
25 Committee, to deal with all the questions that

1 have been put on the table with regard to all the  
2 various fuels.

3 It is a very dynamic area; the facts are  
4 changing constantly. The role of LNG in  
5 California, and obviously affects the role of LNG  
6 and CNG in the mobile source sector. And that has  
7 to be factored into this issue.

8 And we intend to work with all the  
9 stakeholders who are interested and concerned in  
10 this area starting as soon as we finish this IEPR,  
11 which has been all-consuming, I must admit, of  
12 late, to deal with a lot of the questions that  
13 you're putting on the table today.

14 And this is a very dynamic issue, and we  
15 look forward to working with you, quite frankly.  
16 We just can't solve all the problems before us  
17 here today at this moment in time, as the Chairman  
18 has indicated.

19 CHAIRPERSON DESMOND: Thank you,  
20 Commissioner. Next is Michael Eaves, California  
21 NGV Coalition.

22 MR. EAVES: Good morning, Commissioners.  
23 My name is Michael Eaves; I'm the President of the  
24 California Natural Gas Vehicle Coalition. I'd  
25 like to touch base on some of the comments from

1 Mitchell Pratt.

2 Obviously the focus of the Commission's  
3 recommendations moving forward in the IEPR are  
4 really condensed down to looking at the table 1 on  
5 page 11 on the various options to reduce  
6 petroleum.

7 Those options are not ranked, but you'll  
8 note that natural gas for heavy duty ranks 12th  
9 out of 12 measures. I see by the published errata  
10 that you've got that it would rank 11th out of 12  
11 measures.

12 But the industry finds the staff's  
13 analysis of direct benefits severely, if not  
14 critically, flawed.

15 The natural gas vehicle industry  
16 presented an insight to the types of pump pricing  
17 that Mitchell Pratt and Clean Energy offer with  
18 their company. We presented that to the  
19 Commission in August. And when the staff took  
20 that data and modeled it in their -- with their  
21 model, we didn't have anything to do with it, we  
22 just provided input, they modeled it -- that  
23 presented, created a real stark contrast to the  
24 initial staff calculation of direct net benefits.

25 On the previous, in the November IEPR,

1 not the errata, but there was a negative \$1.8  
2 billion associated with heavy duty natural gas  
3 vehicles.

4 If you take the information that we  
5 supplied on pump pricing in August, that turned  
6 out to be a positive \$1.9 billion in net benefits.

7 So you can see that what we're dealing  
8 with is going from 11 or 12 in an option scenario,  
9 to actually being 1 or 2 in an option scenario on  
10 a move-forward basis on direct net benefits.

11 The staff recommendations also did not  
12 factor in any of the changes that have come into  
13 play since August when the President signed in the  
14 bill, the new energy bill and highway bills.  
15 There's up to \$32,000 in vehicle incentives for  
16 purchase of heavy duty vehicles. There's a 50-  
17 cent-per-gallon tax rebate on CNG use in heavy  
18 duty. There's an 80-cent per diesel equivalent  
19 gallon rebate for use of LNG in heavy duty  
20 vehicles.

21 Had staff included these recommendations  
22 and factored these into their modeling approaches,  
23 they would end up with something that would be  
24 totally different and achieving much greater  
25 direct net benefits than the 1.9 billion that they

1 had in their September scenario.

2 In the September report they had two  
3 line items. One was a conservative staff approach  
4 to the model, and one was with industry input on  
5 the final pump pricing. And that created, like I  
6 say, the \$3.8 billion difference in direct net  
7 benefits.

8 So we're hoping that -- and I recognize  
9 the reality that we're moving forward to approve  
10 the IEPR for 2005 that will go to the Governor,  
11 that will go to the Legislature, that will go to  
12 the CPUC, but I think that the recommendations on  
13 the transportation section are lacking in not  
14 having a maybe more aggressive scenario for  
15 natural gas in that.

16 And we hope that by the time you make  
17 your recommendations to the Governor in March that  
18 there's a more prominent mention of the  
19 opportunities for natural gas. And certainly by  
20 the AB-1007 dialogue in June.

21 So, appreciate your time. I appreciate  
22 all your efforts on the work on the transportation  
23 section. We have participated. We're frustrated  
24 that maybe all of our input and everything hasn't  
25 been received and used to best benefit.

1 Thank you.

2 CHAIRPERSON DESMOND: Thank you very  
3 much, Mr. Eaves. And as Commissioner Boyd was  
4 saying, you know, in the coming months and year  
5 we'll continue to refine and expand on those  
6 recommendations.

7 MR. EAVES: Thank you.

8 CHAIRPERSON DESMOND: Thank you. Next  
9 is Brian Brittsan with Composite Technology  
10 Corporation. Mr. Brittsan.

11 MR. BRITTSAN: Mr. Chairman,  
12 Commissioners, good morning. My comments are with  
13 regard to high-temperature/low-sag conductors. I  
14 just have a couple observations with regard to the  
15 draft plans.

16 In the strategic -- in the transmission  
17 investment plan there's references to high-  
18 temperature/low-sag conductor, and references are  
19 conductors, plural, that are being analyzed.

20 In truth, your primary investigator,  
21 SDG&E, is just analyzing 3M's ACCR conductor. And  
22 yet the references in the plan imply that there's  
23 more than one being evaluated.

24 This is causing us tremendous concerns  
25 because our scientists, our engineers, the Dean of

1 Material Science at USC, Senior Research Fellow at  
2 Stanford Research and many others within the  
3 industry have grave concerns about the aluminum  
4 zirconium matrix used in the ACCR product.

5 What is troublesome to us is that  
6 because there's representation of the analysis of  
7 conductors, plural, then we are getting, we feel,  
8 viewed by association in a way that could be  
9 materially damaging to our company.

10 We have, as you may know we have more  
11 commercial installations, more field tests, more  
12 third-party results, and yet there's no analysis  
13 currently being done by the state. We stand ready  
14 to participate.

15 In the past in this room there was an  
16 arrangement made where we were going to do a cost/  
17 benefit analysis on the structural, electrical and  
18 financial attributes of ACCC, so that we could  
19 share those with the state and despite numerous  
20 attempts we've just not been able to go anywhere  
21 with that analysis.

22 So, we request that you rewrite that  
23 section. We'd be happy to provide draft language  
24 that's more appropriate, that doesn't read like a  
25 special interest initiative.



1                   CHAIRPERSON DESMOND: Thank you, Mr.  
2           Brittsan. I would certainly acknowledge, number  
3           one, you know, if it's a minor word change under,  
4           you know, and I don't have the page reference in  
5           front of me, one such technology.

6                   I can appreciate your sensitivity but I  
7           would not interpret this report as an endorsement  
8           of any one technology or company. And that in the  
9           PIER program and our transmission planning  
10          research initiative there are additional efforts  
11          underway to consider and evaluate many of the  
12          issues around, you know, high-temp/low-sag  
13          conductors.

14                  So we'll continue to address that issue.

15                 MR. BRITTSAN: That'd be great. So, if  
16           you could just make the reference to in fact that  
17           there's just one commercial high-temperature/low-  
18           sag conductor currently under analysis.

19                  And then an additional part of the  
20           concern is that there's representations made by  
21           the media for SDG&E about the analysis of  
22           conductors, plural, which is also not true.

23                  So, we would need to request that they  
24           make modifications to their ad campaign.

25                 CHAIRPERSON DESMOND: You can direct

1       those comments to San Diego Gas and Electric.  I  
2       don't think --

3               MR. BRITTSAN:  I just want to be on the  
4       record.

5               CHAIRPERSON DESMOND:  -- it was  
6       intentional on their part to imply that it was  
7       more than one, but that a test is underway.

8               MR. BRITTSAN:  And then you're familiar  
9       with page 54 of the plan where it calls out ACCR  
10      specifically, and actually creates endorsing  
11      remarks?

12              CHAIRPERSON DESMOND:  We'll take that  
13      under consideration.

14              MR. BRITTSAN:  Thank you very much.

15              CHAIRPERSON DESMOND:  Thank you.  Phil  
16      Muller.

17              MR. MULLER:  Chairman Desmond,  
18      Commissioners, good morning.  I'm here to talk a  
19      little bit about the Rodney Dangerfield of  
20      California's electric industry, the aging power  
21      plants, which in the latest draft of the IEPR seem  
22      to be even more out of favor than they have been  
23      previously.

24              Mirant's concerned that the IEPR and the  
25      transmittal that you are adopting contained a

1 strong recommendation to retire over 14,000  
2 megawatts of these aging plants by 2012, and that  
3 that recommendation is neither appropriate nor  
4 really in the best interests of California.

5 In fact we believe that the effective  
6 wholesale market design incorporating the  
7 appropriate components will allow economics and  
8 market mechanisms to determine when and if a  
9 resource is retired.

10 These plants, as old and non-state of  
11 the art as they are, have some valuable  
12 characteristics that I think really need to be  
13 acknowledged.

14 First off, they provide load following  
15 capability over a wide range of a wide operating  
16 range that cannot be approached by combustion  
17 turbines. Large steam turbine units can operate  
18 from 50 to 750 megawatts and ramp anywhere up in  
19 that range with no difficulty, with a fairly  
20 consistent heat rate. That is also comparable to  
21 what you get from a combustion turbine.

22 Now, this load following capability is a  
23 valuable attribute, obviously, and will become  
24 even moreso as more and more intermittent wind  
25 resources become relied on to power California's

1 grid. Something is going to be needed to ramp up  
2 when the wind starts to ramp down.

3 A second consideration is that the older  
4 plants, these old plants can provide low-cost  
5 insurance for dry hydro years or other times when  
6 you are not getting the resources we come to  
7 depend on that aren't physically located in  
8 California.

9 Given -- if there's mechanisms in place  
10 where the owners of these plants can perhaps  
11 mothball them, put them into cold standby rather  
12 than shut them down and bulldoze them, with the  
13 expectation that either they be able to receive  
14 some kind of insurance capacity payment or have  
15 the opportunity to collect scarcity rents through  
16 a properly structured wholesale market structure,  
17 they will have the incentive to do that.

18 I note that you look back at the  
19 production from all these old units. In the  
20 2000/2001 energy crisis period, and hopefully you  
21 have a copy of my presentation here, these units  
22 operated at a 60 percent capacity factor compared  
23 to the 20 percent capacity factor they are now. A  
24 higher capacity factor than they had operated over  
25 20 years.

1           So when the need is there for this kind  
2   of resource, if you've got it you're going to get  
3   it. If the resource is gone because it's not  
4   popular and not the state of the art resource,  
5   it's not going to be available.

6           And these units are also -- many of  
7   these units are located close to load, and are  
8   likely to provide lower cost and lower impact  
9   reliability support than replacement units.

10          In some areas new capacity isn't needed,  
11   just the flexibility and availability that older  
12   units can provide can maintain the necessary  
13   reliability.

14          And, finally, when new capacity is  
15   needed, these locations are the prime sites for  
16   repowering or brownfield development. Now, the  
17   decision to redevelop or retain the existing  
18   resource should be the result of market dynamics  
19   and system need and not regulatory presumption  
20   that new is always better.

21          Rather than make a blanket determination  
22   that all older plants should be retired, as the  
23   report does, the Commission should encourage  
24   development of efficient market mechanisms that  
25   will provide the appropriate economic signals for

1 when units should be retired, repowered or  
2 redeveloped. Things like local capacity  
3 requirements and ancillary service products  
4 designed around actual operating needs, can send  
5 the right signals to these unit owners and their  
6 potential competitors.

7 Administrative determinations not based  
8 on market mechanisms are likely to result in sub-  
9 optimal outcomes. There's a lot of market value  
10 left in these mature plants. And kind of like the  
11 aging utility workforce, we may just need to keep  
12 some of these old dogs around longer than may have  
13 originally been intended.

14 Thanks.

15 CHAIRPERSON DESMOND: Thank you. I  
16 would simply, if you'll just note, a few items.  
17 One, the report does incorporate by reference the  
18 original aging power plant study report. Which  
19 does, in fact, cite all these issues contained in  
20 the value of the load following, close to load.

21 It's my sense that, you know, the  
22 recommendations contained here that deal with  
23 procurement planning are, by inference, taking  
24 these issues into account, as well. But that the  
25 need is to accommodate that. And the market

1 obviously has to consider these very issues. But  
2 it also points out several others.

3 So, as we go through this process, I  
4 think, you know, your comments are well placed.  
5 So I appreciate that.

6 MR. MULLER: Okay, well, part of the  
7 concern is that note in the transmittal that  
8 suggests that the utilities should not be allowed  
9 to contract with these plants beyond some certain  
10 date in the future.

11 And I think that there's -- the market  
12 signals and market structures can make those  
13 decisions, and make better decisions, I think,  
14 than just regulatory fiat, was the main point.

15 CHAIRPERSON DESMOND: Thank you. Les  
16 Guliassi, Pacific Gas and Electric.

17 MR. GULIASI: Good morning,  
18 Commissioners. Les Guliassi from PG&E. The only  
19 comment I wish to make this morning is to offer  
20 you sincere congratulations on the work that  
21 you've done.

22 I want to, in particular, thank  
23 Commissioners Geesman and Body for overseeing the  
24 entire process for this past year.

25 Also I want to thank the staff for the

1       Herculean effort that they made to support this  
2       whole process. I think back on all the analysis,  
3       the good analysis they did, and the many  
4       whitepapers that they issued to launch the various  
5       workshops.

6               While we don't agree with every word in  
7       the report, we certainly don't agree with the  
8       emphasis you placed on every recommendation. We  
9       haven't always seen eye-to-eye on every issue.  
10      But I want to congratulate you again on the work  
11      you've done.

12             And let you know that my participation  
13      in this workshop has been to insure that PG&E has  
14      played a constructive role and made a contribution  
15      constructively in the whole process.

16             The topics that you address, the process  
17      that you led, the product that you've come out  
18      with, and the recommendations that you have are  
19      all important. And I want to again thank you for  
20      the good work you've done and wish you  
21      congratulations.

22             CHAIRPERSON DESMOND: Thank you.

23             COMMISSIONER GEESMAN: Les, I would also  
24      extend my thanks to you and your company. I think  
25      our record is significantly benefitted by the



1 contributions of, I think, a large number of  
2 people from PG&E that have participated in our  
3 process.

4 And obviously we've had some  
5 disagreements over the course of the process, some  
6 of which are in court. But I think that --

7 (Laughter.)

8 COMMISSIONER GEESMAN: -- I think that  
9 we would not have the record that we've been able  
10 to develop were it not for the constructive input  
11 from a lot of people at your company.

12 I recognize the role you play in  
13 marshaling that effort. And just know that it's  
14 well appreciated.

15 MR. GULIASI: Thank you, I appreciate  
16 the kind remarks.

17 COMMISSIONER BOYD: I'd like to echo  
18 that. And if I were to run off a list of the five  
19 or six people who have been consistently here, why  
20 you would certainly make that list. And I  
21 appreciate all the efforts you've made. As  
22 Commissioner Geesman said, we don't always agree,  
23 but we've had very amicable discussions. And  
24 where we disagreed, I appreciate that.

25 MR. GULIASI: Thank you very much,

1 Commissioner Boyd.

2 CHAIRPERSON DESMOND: Thank you. Next,  
3 Joe Sparano, President of WSPA. Joe, before you  
4 begin I'd only ask you to confirm you saw the  
5 errata outside. Thank you, before you start.

6 (Laughter.)

7 CHAIRPERSON DESMOND: Go ahead.

8 MR. SPARANO: Good morning,  
9 Commissioners, Members of the Staff. For the  
10 record, my name is Joe Sparano and I'm here today  
11 representing the Western States Petroleum  
12 Association.

13 Before I get into my remarks I want to  
14 mention that I had something quite a bit longer  
15 than what I'm going to say, and I've asked the  
16 gentleman there to hand you the longer comments.  
17 I don't want to take everybody's time, because  
18 they are long. It has been two years and 200-and-  
19 some pages, but I think being able to hit the high  
20 points for you and the audience would be better  
21 than going through the whole thing.

22 So, with your permission I'd like to do  
23 it that way. And then if there are any questions,  
24 certainly on what I've given you or what I say,  
25 I'm happy to answer them.

1           WSPA's previous testimony at many of the  
2   50 to 60 workshops and our written comments have,  
3   in some cases, been given thoughtful  
4   consideration; and in other cases, have not been  
5   incorporated in the ways we had hoped.

6           But overall, I want to compliment the  
7   Commission on its efforts to pull together a  
8   comprehensive energy strategy and plan for the  
9   state's future. This has certainly been a  
10  challenge.

11          WSPA appreciates being invited to share  
12  our views and debate the issues. I believe we're  
13  getting closer to agreeing as partners rather than  
14  adversaries on many key policy issues.

15          We hope the Commission continues to  
16  treat the IEPR as an evolving an ever-green energy  
17  plan. WSPA will continue looking for ways to  
18  bridge whatever differences of approach remain.  
19  This should result in an energy plan that meets  
20  California's energy supply needs while insuring  
21  protection of jobs and the economy.

22          Let me make a few observations that we  
23  all probably recognize. California consumers live  
24  in a global economy. One in which there is a  
25  strong link between energy and economic growth.

1 If we are to continue to grow economically, both  
2 here in California and nationwide, we must be cost  
3 competitive and efficient in our use of energy.  
4 We need all sources of energy to accomplish this.

5 We cannot afford to impede the use of  
6 our leading current source of energy, petroleum.  
7 Nor do we have the luxury of limiting ourselves to  
8 one source, petroleum. We must also develop  
9 alternative fuels to augment the clean-burning  
10 petroleum products available to us now and into  
11 the future.

12 Most experts agree that these  
13 alternatives must be scientifically sound,  
14 technically feasible and cost competitive before  
15 consumers embrace their mass use as additional  
16 transportation fuels.

17 The experts also indicate that viable  
18 future alternative fuels will require dramatic  
19 advances in technology and massive capital  
20 investments. And that their addition to  
21 California's energy supply portfolio will likely  
22 take decades.

23 Speaking of decades did you know that  
24 WSPA is one of the oldest trade associations in  
25 the nation. We've been in existence under a

1 variety of names since 1907. The companies we  
2 represent have continued reliably supplying  
3 transportation and industrial fuels to the whole  
4 country, as well as California. They have also  
5 provided thousands of jobs to Californians and  
6 paid billions of dollars in taxes to many levels  
7 of government.

8           Given these facts, we should be an  
9 industry that is not just tolerated, but welcomed  
10 to continue our tradition of providing key fuel  
11 supplies to the state. Yet our companies often  
12 feel like they are under constant attack. Attach  
13 that appears to be gaining in intensity just when  
14 the need for our products appears to be greater  
15 than ever.

16           This is while we have been and still are  
17 investing heavily to insure an abundant supply of  
18 our base transportation fuel products that are the  
19 cleanest burning in the world.

20           I want to reiterate WSPA's position to  
21 clarify where we stand on this issue. WSPA  
22 believes meeting the state's energy needs over the  
23 next several decades will require the balanced use  
24 of several elements.

25           These elements include supporting a

1 strong base of petroleum supply and clean  
2 conventional fuels, growing the base of  
3 competitive available alternative and renewable  
4 fuels, and prudently reducing the rate of growth  
5 of energy demand through conservation and  
6 efficiency.

7 Our companies understand very well the  
8 strain that increased demand has placed on the  
9 petroleum infrastructure. WSPA understands and  
10 supports energy diversification approaches to help  
11 alleviate that strain.

12 We understand the lack of federal  
13 movement on CAFE standards has focused the state  
14 on pursuing alternative and renewable fuels in  
15 order to meet state-imposed goals.

16 We do have concerns with some parts of  
17 the proposed 2005 IEPR, and those concerns are  
18 covered in the written information. But we also  
19 support many sections of the IEPR. This includes  
20 the sections dealing with fuels infrastructure.

21 The report attempts to address many of  
22 our previous concerns in the areas of  
23 infrastructure retention and construction,  
24 permitting, ports, environmental justice and  
25 cogeneration. We appreciate the state's attention

1 to these matters in the 2005 IEPR, and are hopeful  
2 that the intended permit streamlining can take  
3 place.

4 WSPA also supports the IEPR  
5 recommendations to increase the use of hybrids, and  
6 low rolling resistance tires, and to reduce fuel  
7 demand through better integration of  
8 transportation and land use planning.

9 We support increasing onsite generation  
10 of electricity at refineries, as our members  
11 currently do not have sufficient onsite generation  
12 to protect against local electricity grid outages  
13 and to allow continued operation of essential  
14 refinery processes. A recent case in point is the  
15 mid-September electricity outage in Los Angeles.

16 WSPA appreciates the IEPR's recognition  
17 that the state needs to move with industry to  
18 identify and develop refinery-based cogeneration  
19 opportunities. Lastly, WSPA is very involved in  
20 the Governor's goods movement initiative under  
21 Cal-EPA and BTNH. We appreciate the IEPR's  
22 recognition that energy infrastructure is an  
23 important component of the continuing dialogue.

24 We support the IEPR's recommendation of  
25 establishing a Committee to look into these issues

1 as well as the Commission's active involvement in  
2 the goods movement phase II action plan currently  
3 being finalized.

4 WSPA has suggested language be inserted  
5 into the phase II report similar to what was  
6 included at our request in phase I. This is to  
7 insure the protection of existing petroleum  
8 infrastructure and to allow addition of new  
9 facilities in California's ports to insure  
10 adequate future supplies of transportation fuels.

11 In closing, I want to tell you that  
12 WSPA's overall desire and plan are to collaborate  
13 with the Commission and the rest of state  
14 government. We hope that the public bodies in  
15 this state that control to some extent the future  
16 energy pathway for California will welcome all  
17 potential investors equally to help insure  
18 adequate, reliable, cost effective and  
19 environmentally sound energy supplies without  
20 sacrificing jobs or the economy.

21 If all these elements are balanced the  
22 state should be able to make progress in meeting  
23 its goals. If they aren't balanced the  
24 consequences may not be pretty.

25 Simply put, the state's policy should



1 not inhibit the marketplace from ultimately  
2 determining how to evolve from today's petroleum-  
3 based fuel economy and bridge to an economy fueled  
4 by a more diversified energy supply portfolio.

5 As we travel across California's bridge  
6 to the future there will be implementation  
7 challenges. WSPA stands ready to continue our  
8 tradition of keeping the golden state moving and  
9 economically vibrant. We can only do that if  
10 allowed and welcomed to do so.

11 CHAIRPERSON DESMOND: Comments?  
12 Commissioner Boyd.

13 COMMISSIONER BOYD: Joe, thank you for  
14 your testimony and your fairly regular involvement  
15 in this process. We both appreciate the fact  
16 we're going to have differences of opinion on a  
17 lot of these issues. But I do appreciate the  
18 amicable way in which we've been able to discuss  
19 these issues.

20 The comments I made earlier to the  
21 gentleman speaking about natural gas, and the fact  
22 that this Commission's Transportation Fuels  
23 Committee and me, personally, in particular, are  
24 going to devote a lot of effort in this next  
25 working year to the subject of transportation

1       fuels in the state, means that we're going to be  
2       reaching out continually to all the stakeholders,  
3       including you folks and the folks you represent in  
4       solving this problem.

5               I think you've got to admit that this  
6       report goes a long way in making the point that we  
7       know petroleum is going to be the dominant fuel  
8       for a long time into the future. And this  
9       Commission and many others are quite worried,  
10      though, about California's economy.

11             And as you have indicated, we need some  
12      diversity. And you've been supportive of the idea  
13      of discussing alternative fuels, and we will do  
14      that throughout the course of the continuing  
15      evaluations that we carry out.

16             So, I appreciate the comments that you  
17      made here today. And we do want to work with you  
18      into the future in trying to, as best we can, work  
19      out what's best for California's future.

20             CHAIRPERSON DESMOND: Commissioner  
21      Pfannenstiel.

22             VICE CHAIRPERSON PFANNENSTIEL: Joe, I  
23      just wanted to say, I appreciate you comments and  
24      I appreciated your list of the areas on which we  
25      do agree, on which WSPA agrees with the

1        recommendations. I think that's really  
2        encouraging.

3                As Commissioner Boyd pointed out,  
4        there's a lot that we need to focus on. And I  
5        think that our agenda on transportation fuels in  
6        the next year is pretty full.

7                I just wanted to highlight one aspect  
8        that you mentioned. You did agree with the IEPR,  
9        and I think it's an area that Commissioner Boyd  
10       and I are going to be involved in greatly, and  
11       that's land use planning, as it affects  
12       transportation fuels.

13               So I just want to say, you know, we'll  
14       be looking forward to working with you in that  
15       area.

16               COMMISSIONER GEESMAN: And I would hope  
17       that we can make some good progress on the  
18       infrastructure side this next year, as well. And  
19       I certainly appreciate the stamina that you've  
20       brought to our process.

21               (Laughter.)

22               MR. SPARANO: The Commission has done a  
23       terrific job on this report. Clearly there are  
24       areas that we haven't agreed with, and I didn't  
25       think it was appropriate to just stress those.

1       There are many areas we do agree with.

2               The areas we don't agree with I hope we  
3       have a chance to come to a reasonable and  
4       collaborative conclusion as to where the state  
5       should go. And we stand ready to help in that  
6       effort.

7               But I do think the permitting issue and  
8       streamlining and work that Commissioners Geesman  
9       and Boyd have emphasized and supported is key,  
10      particularly with the ports. There are going to  
11      be needs for a tremendous amount of imports,  
12      whether any of us likes that or not, in order to  
13      meet the energy demands in the near- to mid-term  
14      future. That has to happen.

15              And there's clearly a distinction  
16      between how the local venues, the ports, are  
17      viewing this opportunity or not. And what the  
18      state may need to do to insert itself into the  
19      process, to insure that the consumers in this  
20      state are not shorted on energy.

21              COMMISSIONER BOYD: I would like to --  
22      excuse me -- publicly ask you for some help. And  
23      that is, in all candor, this agency has not been a  
24      player in the goods movement debate that's going  
25      on. And perhaps you can make the point to the

1 folks running that program that you can't have  
2 that kind of debate without injecting energy into  
3 the equation. And maybe that could provide a  
4 forum for a better balancing of all the systems  
5 aspects of this issue that I know you're quite  
6 aware of, and we're quite aware of. And we need  
7 to make a lot of other people aware of that fact,  
8 as well.

9 MR. SPARANO: Yeah, we sent a letter on  
10 Friday on this subject. And I believe it included  
11 a pretty aggressive statement about statewide  
12 efforts and the Energy Commission's inclusion in  
13 the process. And I will re-emphasize that.

14 COMMISSIONER BOYD: You anticipated me.  
15 Thank you.

16 CHAIRPERSON DESMOND: Before you leave,  
17 Mr. Sparano, just a couple final things. I  
18 appreciate again the comments and the  
19 clarifications that you're supporting.

20 Prudent reduction in the rate of growth  
21 of energy demand through conservation and  
22 efficiency, as it is.

23 And I think we would agree that  
24 California has benefitted, as evidenced by its  
25 lowest per capita consumption in the nation, based

1 on its investments in efficiency. And arguably  
2 the loading order embodies that sort of approach.

3 And, you know, when you look and you ask  
4 the question, what got us there. It's a  
5 combination of standards and efficiency programs.  
6 I see you nodding your head, but I would also  
7 point out that those programs are funded by a  
8 public goods charge.

9 And in your testimony, which you did not  
10 read out loud, but I'll note it here, that WSPA  
11 does not support a public goods charge to  
12 establish a long-term secure support funding.

13 And so rather than trying to get you to  
14 agree to words I'm not putting in your mouth, I'd  
15 simply ask that as you leave today you go back and  
16 think about how we pay for a program that you're  
17 here today saying that you would support. So, I  
18 thank you.

19 MR. SPARANO: Thank you.

20 CHAIRPERSON DESMOND: Next is Carl  
21 Walter.

22 MR. WALTER: Good morning, Mr. Chairman,  
23 Commissioners. I have no prepared talk to give  
24 you, but I'd like to say that I was here in August  
25 and submitted a rather lengthy paper which I found

1 no reference to in your report.

2 I haven't examined your report in great  
3 detail, but I did scan, did a find on the word  
4 nuclear. And came across 43 instances where the  
5 word nuclear appears in the report. And so I  
6 printed those pages, which amounts to seven pages.

7 And it doesn't really say anything  
8 constructive about nuclear power, which is so  
9 important now and in the future.

10 And so I would like to know, first of  
11 all, can you dig up my paper and reconsider it?  
12 Because everything I'd like to say is stated in  
13 there. And maybe before the day's over you can  
14 tell me an answer on that.

15 And I'd like to point out that back in  
16 1976 the state tried to get proposition 15 passed,  
17 which would prevent further construction of  
18 nuclear power. The people of California  
19 resoundingly defeated proposition 15.

20 And nevertheless, Warren Alquist and the  
21 Legislature went ahead and came up with a couple  
22 of statutes that prevented further construction in  
23 California until a couple of conditions were met.

24 Things have changed a lot; development  
25 has made for better reactors. There are ways of

1 recycling fuel that take care of the waste  
2 problem. And there is no good reason not to  
3 constructively look at nuclear power as a benefit  
4 to California's future.

5 Thank you.

6 CHAIRPERSON DESMOND: Thank you, Mr.  
7 Walter.

8 COMMISSIONER BOYD: Mr. Walter, let me  
9 just say that I remember your paper. And all  
10 papers submitted are part of the official record  
11 here. So, rest assured that it's in that lengthy  
12 stack of material that was referenced earlier.

13 Let me also say, as a Commissioner and a  
14 state liaison with the Nuclear Regulatory  
15 Commission that we've spent a lot of time looking  
16 at nuclear. The hearing that we had here was the  
17 first hearing held, somebody said, in 30 years on  
18 the subject of nuclear.

19 And you might take a message from the  
20 number of times it is or isn't referenced in this  
21 transmittal, or in this document. But there's a  
22 law on the books in California that says until the  
23 waste problem is solved, nuclear isn't going  
24 anywhere in this state. And I think we concluded  
25 after two days of hearing, and I concluded after



1 almost four years on this Commission, that we've  
2 proven ourselves quite incapable, to date, of  
3 solving that problem. And that's the problem that  
4 has to be solved before we talk about nuclear  
5 technology.

6 I don't have any grievances personally  
7 with the ability to generate electricity using  
8 nuclear energy. It's the use of the waste that  
9 has totally stymied everything. So that issue is  
10 not going anywhere in this state until that  
11 problem is solved, from my perspective. So.

12 MR. WALTER: May I say something? May I  
13 say that there is a solution for that. And if you  
14 look at the technical aspects of it, it would be  
15 easy to go forward and demonstrate that you can  
16 recycle fuel; you can take care of all the used  
17 fuel problems so you don't need a long-term  
18 geological storage. And it's do-able; it's very  
19 feasible.

20 COMMISSIONER BOYD: I'm confident that  
21 in the next several decades this country will  
22 figure out how to do it. But, probably not in my  
23 working lifetime.

24 CHAIRPERSON DESMOND: Thank you, Mr.  
25 Walter.

1                   MR. WALTER: Thank you.

2                   CHAIRPERSON DESMOND: Next is Charles  
3 Boardman.

4                   MR. BOARDMAN: Good morning,  
5 Commissioners. It's a pleasure to be here. I  
6 represent nobody but a private citizen who's  
7 interested in the cost of electricity, and is  
8 concerned about global warming.

9                   I guess following Carl Walter there, I  
10 would encourage the Commission to work with the  
11 Legislature to see if something can be done about  
12 the Warren Alquist law that makes is a  
13 prerequisite for Yucca Mountain to be approved and  
14 reprocessing facilities to be in operation before  
15 California considers nuclear plants.

16                   In my own mind it's almost inconceivable  
17 that Yucca Mountain won't be approved and  
18 operating within ten years. And it will take ten  
19 years even if you went out for bid for a new  
20 nuclear plant to even construct one, leave alone  
21 the fact that you usually keep the spent fuel in a  
22 plant storage pools for ten years or so before  
23 you'd want to ship it offsite.

24                   So, I think the spent fuel problem will  
25 be handled, one, by Yucca Mountain, and two, by

1        reprocessing. And several of us would be happy to  
2        come, if you have the time, to give you a more  
3        indepth look at what's going on in the  
4        reprocessing field.

5                I returned from Washington, D.C. on  
6        Wednesday. I'm a member of a NERAC review  
7        committee charged to review the Department of  
8        Energy's next generation nuclear plant program,  
9        and the advanced fuel cycle programs.

10                You know, the DOE, has been charged by  
11        the latest Energy Policy Act to begin the  
12        development of a new reactor concept, a high-  
13        temperature gas cool reactor that's tuned up to  
14        produce hydrogen in a competitive fashion, so that  
15        you can power fuel cell power to electric vehicles  
16        and have a zero emission transportation system.  
17        That's coming along.

18                The other thing the Administration is  
19        doing is they're going to, I guess, reinstate the  
20        U.S.'s ability to build reprocessing facilities.  
21        Carter banned it. It's going to come back. And  
22        they're going to begin building reprocessing  
23        facilities in the U.S. as a proliferation measure  
24        so that major states only would be doing the  
25        reprocessing. You wouldn't have North Korea and

1 Iran and Iraq and so on reprocessing, just the  
2 major states.

3 The reprocessing is coming back; Yucca  
4 Mountain is going to go through within ten years.  
5 And you ought to begin looking at that because of  
6 two reasons. One is the cost of electricity and  
7 the other is the global warming, or the threat of  
8 it.

9 And it's interesting, I can pass this on  
10 to you electronically or otherwise, but this is a  
11 statement to a Congressional Subcommittee on  
12 Energy Resources by Patrick Moore, Ph.D. He was  
13 the founder of Greenpeace. And basically what  
14 he's saying here, and it's quoted at the top,  
15 nuclear energy is the only non-greenhouse gas  
16 emitting energy source that can effectively  
17 replace fossil fuels and satisfy global energy  
18 demand.

19 And I think that the Commission is  
20 remiss if you don't begin working with the  
21 Legislature to bring nuclear energy back to  
22 California. Just from global warming and  
23 greenhouse gases.

24 But the other part of it, of course, is  
25 back in -- have some data from the period 1999 to

1       2001 when natural gas was \$3 per million Btu and  
2       oil was \$30 a barrel. Much cheaper than today. I  
3       think natural gas is \$11 to \$14 a million Btu, and  
4       oil, of course, is hovering around \$60, double.

5               And at that time the production cost for  
6       electricity from Diablo Canyon was 1.5 cents per  
7       kilowatt hour. I would say that Diablo Canyon is  
8       still producing -- Diablo Canyon's production cost  
9       is still 1.57 cents per kilowatt hour, it hasn't  
10      changed.

11             But at that time when natural gas was  
12      cheap, the production cost of electricity from  
13      natural gas-fired plants was over 6 cents a  
14      kilowatt hour. Now it must be 12. And oil was 12  
15      cents a kilowatt hour.

16             And so I would bet that in the coming  
17      year, as the effect of the increasing price of oil  
18      and natural gas hits the consumers' heating bills  
19      and electrical bills, you're going to come under  
20      more and more pressure to bring nuclear back to  
21      California.

22             And I thank you for this opportunity to  
23      speak before you. And, as I mentioned, we'd be  
24      happy to give you a much more detailed  
25      presentation on reprocessing and what's going on

1 in that area. Or anything else that you'd like in  
2 the nuclear area.

3 And thank you.

4 CHAIRPERSON DESMOND: Thank you, Mr.  
5 Boardman.

6 Next we have Edwin, is it Sayre?

7 MR. SAYRE: Yeah.

8 CHAIRPERSON DESMOND: Advocates for  
9 Clean Responsible Energy.

10 MR. SAYRE: Yes, I'm here representing  
11 Advocates for Clean Responsible Energy. Mr.  
12 Walter and Mr. Boardman are also members of this  
13 organization. It's a group of engineers and  
14 scientists in the Bay Area of over 30 years of  
15 experience per person in the field of energy  
16 production.

17 I realize that the Warren Alquist Act  
18 has certain restrictions with regard to nuclear  
19 power for the State of California. However, I  
20 think that the CEC is obligated by the California  
21 Legislature and to the citizens of California to  
22 provide guidance to the Legislature in long-range  
23 planning for energy production and usage in  
24 California.

25 And I think it's a big mistake

1 completely ignoring the information that was  
2 brought to this organization in August. I was  
3 here for the meeting then, and many of us provided  
4 a lot of information to you with regard to the  
5 long-range aspect of nuclear power for  
6 California's usage and production.

7 Many states in this country are looking  
8 to nuclear power energy futures right now, and  
9 planning it in. Mr. Boardman just talked about  
10 what the United States Government is doing with  
11 regard to pushing nuclear power for the future  
12 here.

13 China is planning to build 30 nuclear  
14 plants in the very near future. The world is now  
15 beginning to expand its development of energy  
16 depending on nuclear power. And California just  
17 cannot afford to be left behind.

18 So I don't think you can come out with a  
19 report that completely ignores, regardless of what  
20 the Warren Alquist Act says, completely ignores  
21 the future requirements of nuclear power to be the  
22 main aspect of California's energy.

23 It eventually is with fuel recycling the  
24 only practical source of energy that can provide a  
25 major contribution to California's energy future.

1       It's the safest, most reliable, environmentally  
2       friendly and economic energy source we can have in  
3       the future.

4               If all of the energy used by the State  
5       of California this year, 2005, were generated by  
6       nuclear, and that means I'm talking about  
7       transportation and electricity, heating,  
8       everything, were generated by nuclear, and if the  
9       fuel were reprocessed and recycled the way it  
10      should be, and the fission products were handled  
11      the way they commercially should be, the amount of  
12      fission product waste that we would have to deal  
13      with for every citizen in California is that  
14      amount, one M&M candy. That's all the waste you'd  
15      have if all the energy we used was generated by  
16      nuclear.

17             I can go through the calculations. If  
18      you want me to come back, I can do all the detail.  
19      But that's the truth.

20             Now, you're emphasizing renewables for  
21      California. That's your main emphasis in this  
22      report. If 20 percent of the energy of California  
23      were produced by wind, you would have to have  
24      237,000 one-megawatt windmills in California.  
25      Where are you going to put 237,000 400-foot-high



1 windmills in California?

2 Furthermore, if you want 20 percent of  
3 the energy by electricity you have to put in five  
4 times that amount. Because the capacity factor is  
5 20 percent. Now, when that happens, when the wind  
6 is blowing you're making much more energy than you  
7 need, so what would you like to do? You'd like to  
8 store that so that you could actually have 20  
9 percent of the total energy produced by wind.

10 If you're going to store it the best  
11 means of storage is pump storage. That means 37  
12 Hoover Dam-sized storage sites in California.  
13 Where are you going to put 37 Hoover Dam-sized  
14 storage facilities in California?

15 CHAIRPERSON DESMOND: Thank you, Mr.  
16 Sayre.

17 MR. SAYRE: I think you must consider  
18 that. And I'd like to say that from the  
19 standpoint of nuclear, we think your report is  
20 incomplete and more work needs to be done before  
21 it's approved.

22 CHAIRPERSON DESMOND: Thank you.

23 MR. SAYRE: Thank you.

24 CHAIRPERSON DESMOND: Mr. Schoonyan.  
25 Hiding in the back.

1                   MR. SCHOONYAN: Hi. Gary Schoonyan  
2           representing Southern California Edison Company.  
3           And as the chap from Mirant said, I'm part of the  
4           aging utility workforce.

5                   (Laughter.)

6                   MR. SCHOONYAN: I will be brief because  
7           the majority of my comments are in written  
8           responses we've already made to the Commission.  
9           And I do appreciate the opportunity to speak  
10          before you, as well as before the many hearings  
11          that took place.

12                  We did have our share of disagreements.  
13          We probably still do. But I just wanted to  
14          highlight a couple of concerns that we have at  
15          this point in time.

16                  In the renewable area, basically it's  
17          the 30 percent premium, the concern that we have  
18          there. We believe at this point the state ought  
19          to focus on getting 20 percent by 2010, and try to  
20          figure out what needs to be done to get  
21          potentially to the 33 percent by 2020, rather than  
22          having yet another higher goal, which, I mean the  
23          30 percent, as I understand, premium would bring  
24          really the 20 percent to more like about shoot for  
25          26 percent. That's one concern.

1           The other concern, or another concern is  
2   that we believe that all load-serving entities  
3   need to invest in long-term new investment of  
4   generation within the state. The recommendations  
5   call out basically just for investor-owned  
6   utilities to do that. We do not feel it is  
7   appropriate; and I think most of the policymakers,  
8   at least the discussions that we've had in the  
9   context of things that have gone on at the  
10   Legislature, feel that all load-serving entities  
11   need to equitably participate. It's not just the  
12   investor-owned utilities that have to go long  
13   while other people have the opportunities to go  
14   short. Everyone needs to participate.

15           There's been quite a bit of discussion  
16   today with regards to combined heat and power.  
17   And as I've mentioned before at the Committee  
18   hearings, we're very supportive of combined heat  
19   and power. The concerns that we have is that  
20   there continues to be instances or people bringing  
21   up all the barriers associated with this.

22           There is no evidence that there's major  
23   barriers associated with combined heat and power.  
24   They presently get about 8.6 cents per kilowatt  
25   hour at this point in time. There's no evidence

1       that there would be widespread shutdown, as has  
2       been indicated.

3               I mean, basically from what we've seen,  
4       is our customers foot a significant bill over the  
5       last 20 years in support of particularly the major  
6       combined heat and power type projects. Presently  
7       they're touting all the benefits, and there are  
8       real benefits associated with the combined use of  
9       heat and with the production of power. But  
10      they're touting these as a method of moving up in  
11      the loading order.

12             However, from our perspective, they keep  
13      all those benefits. And basically are looking, or  
14      at least advocating, as the report says, a  
15      standard type contract approach going forward on  
16      the power end of this thing.

17             Basically if they want to compete, let  
18      them compete in a bidding auction and what-have-  
19      you. Other generators do that. There's no reason  
20      that they can't keep their benefits associated  
21      with the heating portion of it, as they do now.  
22      But on the power side, compete along with other  
23      generators in the system.

24             The final concern with regard to this,  
25      and I brought this up a couple of times, and I

1 bring it up again only because the study has been  
2 updated, I just received a copy of it, via the  
3 internet -- with regards to the air pollution  
4 exposure associated with the consequences of  
5 distributive energy generation. And CHP is  
6 included in that, I would assume.

7 And I just wanted to read one of the  
8 findings there. It's to equalize the exposure  
9 burden between DG and central station  
10 technologies, DG emission factors will need to be  
11 reduced to a range between a level of the cleanest  
12 new central stations in California and an order of  
13 magnitude below those levels, depending upon the  
14 pollutant and the siting.

15 And I guess from our perspective we  
16 believe that the report just needs to recognize  
17 this. I mean, obviously it's a case-by-case  
18 basis, but there needs to be some recognition that  
19 there are potential severe greenhouse gas and  
20 other air quality impacts associated with locating  
21 smaller facilities throughout the service  
22 territory.

23 The only other thing I wanted to touch  
24 upon, and this was something that we did not touch  
25 upon in our comments, and just came across in

1 reading the report this weekend again, and had to  
2 do with wastewater and water treatment facilities.

3 And here, again, this is something we  
4 fully support. If this state has a problem in the  
5 future it'll be in the area of water. Production,  
6 transportation and extraction.

7 However, what the report appears to  
8 suggest and to advocate is that these sorts of  
9 facilities basically have unlimited net metering,  
10 basically waiver of standby charges and in essence  
11 retail wheeling.

12 The end result of this is basically none  
13 of these facilities, at least from our reading of  
14 it, would be paying any of the T&D charges  
15 associated with connection to the grid.

16 And from our perspective we're all for  
17 promoting these types of technologies, but not in  
18 this particular manner.

19 And that concludes my comments. Thank  
20 you.

21 CHAIRPERSON DESMOND: Thank you. Any  
22 comments? The only thing I would add is on the  
23 wastewater, and appreciate the transmission/  
24 distribution issue since it comes up in other DG.  
25 Yes, I was surprised, pleasantly surprised, I

1       should say, at the opportunity for efficiency  
2       water savings to translate to energy and  
3       electricity savings for which currently the  
4       utilities do not get credit for.

5               So, that's certainly an area that I  
6       think the report did a great job bringing  
7       attention to.

8               Next is Mary Ann Dickinson, Executive  
9       Director for the California Urban Water  
10      Conservation Council.

11              MS. DICKINSON: Good morning, Chairman  
12      Desmond and Members of the Commission. My name is  
13      Mary Ann Dickinson and I'm here on this wonderful  
14      segue from the Chairman, --

15              CHAIRPERSON DESMOND: That was not  
16      planned, by the way.

17              MS. DICKINSON: I'm here to talk about  
18      the water chapter, chapter 8 of the Integrated  
19      Energy Policy Report. I'm with the California  
20      Urban Water Conservation Council, which, as you  
21      know, is an organization that works with all the  
22      water utilities in the state to help them achieve  
23      best management practice conservation programs.

24              And we do a lot of combined water/energy  
25      programs, as well. We currently are operating

1 under a grant from the Public Utilities Commission  
2 to install pre-rinse spray valves.

3 And I'm here to first of all applaud the  
4 Commission for adding chapter 8 to this report. I  
5 think it's been long overdue that we recognize the  
6 linkages between water and energy consumption.  
7 And I'm very pleased with the report's  
8 recommendations. I want to commend the staff for  
9 the hard work that they've done.

10 I was, too, pleasantly surprised to see  
11 just how much of the state's energy load was water  
12 related. Nineteen percent of the state's electric  
13 energy load and 32 percent of the state's natural  
14 gas load is related to not only the movement of  
15 water, but the treatment of water, the  
16 distribution and end use consumption of water.

17 I was further pleased to see on page 156  
18 the analysis that showed that you could achieve 95  
19 percent of your stated energy efficiency goals  
20 through water efficiency programs at 50 percent of  
21 the cost -- 58 percent of the cost, which is an  
22 astounding number. And I know you're fully aware  
23 of this; I know Commissioner Rosenfeld is  
24 interested also in negotiating with the Public  
25 Utilities Commission to make sure these programs



1       for cold water conservation are funded with the  
2       energy efficiency money.

3               Water efficiency is a very under-funded  
4       effort in California. I did a little calculation,  
5       the past ten years, and that includes two years of  
6       future prop 50 cycles, in ten years we will have  
7       spent only \$145 million for both combined  
8       agricultural and urban water use efficiency. And  
9       that pales by comparison in terms of the energy  
10      efficiency budgets.

11             So I'm here to plead with you -- we  
12      submitted an application for a cold water energy  
13      program to the Public Utilities Commission and  
14      were told we could not qualify.

15             So, I'm hopeful that you will be able to  
16      negotiate with them and make sure that they see  
17      the benefits of saving water that's been so well  
18      documented in your report, and exert your  
19      influence on them to make sure that they give  
20      credit for these kinds of programs and fund them  
21      to the level that they deserve.

22             And again, I just want to commend the  
23      staff for all the hard work that they've done.  
24      They were very open; they involved us in the  
25      process; gave us ample opportunity to provide

1 input. And I just want to acknowledge that  
2 invitation.

3 So, thank you.

4 CHAIRPERSON DESMOND: Thank you, Mary  
5 Ann. I'd like to say that that chapter was  
6 groundbreaking, but maybe more appropriately  
7 water-breaking, so --

8 (Laughter.)

9 CHAIRPERSON DESMOND: Moving on. Frank  
10 Cady, GM. Mr. Cady.

11 MR. CADY: Thank you, Chairman Desmond  
12 and Honorable Commissioners for this opportunity  
13 to address you today. I'm Frank Cady, I'm the  
14 General Manager of the Lassen Municipal Utility  
15 District, for the last couple months, anyway.  
16 Prior to that, like my counterpart at SMUD, I was  
17 general counsel for 15 years for LMUD.

18 I just last week delved into your work  
19 with the initial help of Mr. Kennedy. Is Mr.  
20 Kennedy here? Thank you. And this week I'm  
21 wearing glasses as a result of that. Last week I  
22 wasn't.

23 (Laughter.)

24 MR. CADY: First of all, on behalf of  
25 the Lassen Municipal Utility District, which was

1       formed in 1986 and went into operation in '88,  
2       we're located in Lassen, California, northeastern  
3       adjacent to the State of Nevada.

4               I would like to acknowledge and thank  
5       the Commission and staff for all the hard work  
6       that it has been engaged in to date regarding SB-  
7       1389. Not only has this Commission and staff  
8       timely completed, or complied with this  
9       legislative mandate, it has undertaken numerous  
10      and very detailed adjunct studies concerning  
11      California's place, past, present and future, in  
12      the so-called westwide electricity market, with  
13      special emphasis on westwide resource  
14      availability, whether renewable or fossil. And  
15      long-term transmission corridors, interconnection  
16      point, identification, construction and upgrades.

17             I believe Mr. Desmond, at a meeting of  
18      the energy subcommittee of the California Chamber  
19      of Commerce, addressed these issues about a year  
20      ago.

21             The Commission, as well as the Governor,  
22      the CPUC, the Legislature have all recognized that  
23      the self-created uncertainty of California's  
24      regulatory system has dissuaded the capital  
25      investment that is needed for the preferred

1 resources of the current loading order.

2 Recognition of this fact, of course, is  
3 the first step towards a competitive westwide  
4 generation and distribution system which would  
5 open these interstate resources, markets and hubs  
6 to intrastate load.

7 LMUD is generally in concurrence with  
8 the IEPRs, the 2003, the updated 2004, and the  
9 proposed 2005, and the Governor's August 23, 2005  
10 response thereto.

11 In reading the reports, including the  
12 2005 proposed Strategic Transmission Investment  
13 Plan I note, however, that most of the focus  
14 appears to be on southern California. Being  
15 northern California native, though, we define  
16 southern California as anything below Redding.

17 (Laughter.)

18 MR. CADY: However, I'd note that the  
19 CEC's March 2005 draft feasibility report  
20 regarding AC transmission specifically identified  
21 LMUD's lines and corridors for a potential 500 kV  
22 trans-Sierra line and intertie. Perhaps the  
23 Frontier Line?

24 All California could benefit from this  
25 sort of attention to the potential resources and

1 potential corridors available in northern  
2 California. For example, within LMUD's service  
3 territory lies CEC-identified high-quality wind  
4 generation plats, existing geothermal and biomass  
5 generation areas, extensive rail grids, U.S.  
6 highways and the Reno-Alturas 345 north/south  
7 intertie, and the Malin to Reno north/south  
8 interstate gasline, Tuscarora's natural gasline.

9           There's existing capacity on LMUD's  
10 system for a significant amount of trans-Sierra  
11 transmission of energy, as well as existing LMUD-  
12 and other utility-owned trans-Sierra corridors  
13 east and west. From LMUD's service territory to  
14 California's interstate transmission backbone,  
15 running north and south, in the central part of  
16 California which, of course, is interconnected at  
17 the north at Cobb -- or to the Pacific Northwest  
18 at Cobb, and with our southern and southwestern  
19 neighbors Mexico, Arizona and New Mexico.

20           In this regard LMUD tomorrow night will  
21 be considering and adopting resolution number  
22 20050-20, a resolution setting forth LMUD's policy  
23 for the encouragement and development of clean and  
24 green generation and transmission faculties within  
25 LMUD's service area. Specifically the eastern

1       portion of the Honey Lake Valley where the above-  
2       referenced resources and infrastructure already  
3       exist.

4               The policy will complement your work in  
5       the loading order. I will forward this policy to  
6       you on Wednesday after it's adopted, and I am  
7       confident that it will be adopted.

8               In discussions with the County of Lassen  
9       and the County is in accord, in principle, with  
10      the direction LMUD seeks herein to pursue, LMUD  
11      encourages this Commission's adoption of the  
12      proposed 2005 IEPR, the Strategic Transmission  
13      Investment Plan and the Transmittal document, all  
14      as this Board may prudently amend today, and the  
15      forwarding of such to the Governor's Office for  
16      response.

17              LMUD also wishes to go on record as  
18      holding itself, its management and staff available  
19      to the CEC and its staff to assist in the pursuit  
20      of any aspects of the implementation of these  
21      strategic plans and the loading order, which the  
22      CEC and the Governor would like to pursue with a  
23      receptive public utility and a receptive county.

24              By the way, to emphasize what my  
25      colleague from CMUA mentioned when I walked into

1 the room about an hour ago, and is thoroughly  
2 shown in the hearings that were held in Los  
3 Angeles last week, POUs are, with one notable  
4 exception, generally ahead of the IOUs in green  
5 energy procurement and use. In fact, every  
6 electron used by LMUD's constituents is generated  
7 by a cogeneration facility, contracts aside.

8 And with that I thank you for allowing  
9 me to speak. And by the way, since your elevation  
10 to Chair of this Commission, who is the task force  
11 member for the Frontier Line? Is that still you,  
12 Chairman Desmond?

13 CHAIRPERSON DESMOND: Still. We have  
14 staff that still coordinates on that, but that is  
15 also being handled in the context of the Clean and  
16 Diversified Energy Advisory Council to the Western  
17 Governors Association.

18 MR. CADY: Thank you.

19 CHAIRPERSON DESMOND: Thank you, Mr.  
20 Cady. It's not everyday that somebody comes and  
21 says they actually want to build transmission in a  
22 corridor, so a pleasant surprise.

23 MR. CADY: We're here to help.

24 CHAIRPERSON DESMOND: Thank you. Next  
25 we have Joe Kloberdanz, San Diego Gas and

1 Electric.

2 MR. KLOBERDANZ: 'Morning, Mr. Chairman,  
3 Commissioners.

4 CHAIRPERSON DESMOND: Good morning.

5 MR. KLOBERDANZ: Just briefly, the  
6 reports are in, the votes are going to be taken  
7 soon, there's not a whole lot to be changed. And  
8 I don't mean that as an insult, that's just where  
9 we are.

10 It's been a big year, been working on  
11 this about 12, 13 months, I think. And I just  
12 wanted to indicate a few things briefly about the  
13 reports you're going to vote on shortly.

14 First of all, there's been a lot of fine  
15 work done. And you've made many opportunities for  
16 my company to say the things we wanted to say  
17 about dozens of subjects. Very much appreciate  
18 that; that was well handled. Your staff's done a  
19 lot of fine work.

20 We have been able to come to a point  
21 with respect to our resource plan and the  
22 transmittal report where we're a lot closer than  
23 we were. There's a few tuneups that we'll need to  
24 do when we get it over to San Francisco next year,  
25 but we're very close.



1                   Unfortunately, we can't say the same  
2                   about the load forecast. We'll work on that next  
3                   year, as well, and we'll do what we need to do  
4                   there. Really pleased with what you're able to  
5                   say about transmission.

6                   And I guess the final observation I  
7                   would make in thanking you for the work this year  
8                   is that it's good to see that intelligent and well  
9                   meaning people can disagree strongly on certain  
10                  points and still agree on many others necessary to  
11                  move things forward for California.

12                  Thanks for your time.

13                  CHAIRPERSON DESMOND: Thank you for  
14                  those comments.

15                  The last speaker I have here with blue  
16                  cards, and then if we have people on the phone let  
17                  me know, okay -- is Tom Fulks with the Diesel  
18                  Technology Forum.

19                  MR. FULKS: Commissioner Desmond,  
20                  fellow Commissioners, thank you for allowing me to  
21                  talk today. My name is Tom Fulks; I'm here  
22                  representing the Diesel Technology Forum. We did  
23                  have Alan Schaefer, the Executive Director of the  
24                  Technology Forum on the phone. He got pulled away  
25                  somehow or another, so I'm here to read his

1        comments into the record, if that's possible.

2                Before I begin, though, I would like to  
3        echo the comments of just about everybody else  
4        who's gotten up here and spoken this morning about  
5        the level of cooperation we've received from your  
6        staff, from your subcommittees, and how much we  
7        appreciate the level of civility that has gone  
8        into this discussion. And the level of effort  
9        that has gone into it, as well, analyzing all of  
10       our comments and everything else. We really do  
11       appreciate that very much.

12               If you don't mind I'm going to have to  
13        remove my glasses and read this, so before I even  
14        begin, though, I would like to make note of the  
15        errata. The Diesel Technology Forum submitted its  
16        verbal comments in writing last Friday mentioning  
17        something that we thought might be in error in the  
18        table. And I'll reference that in a minute.

19               But what I'm going to do is continue to  
20        read the letter just so we have on the record what  
21        that error would have meant if it's an error at  
22        all. I don't know how to phrase it, but I'll get  
23        to that in a minute. But I wanted you to be aware  
24        that the verbal testimony will differ somewhat  
25        from what we submitted just because of the errata

1       that I saw this morning.

2               I am here, again, from the Diesel  
3       Technology Forum, which is a nonprofit educational  
4       organization dedicated to promoting the progress  
5       and potential of diesel technology across all  
6       applications.

7               Diesel technology plays a vital role in  
8       key sectors of the California's economy,  
9       accounting for more than \$12.3 billion annually in  
10      2003 in sectors such as goods movement,  
11      construction and agriculture.

12              The Diesel Technology Forum has  
13      submitted written testimony to the docket on  
14      October 3rd, and again on October 11th. And we do  
15      appreciate that that testimony was actually read  
16      and considered. We appreciate that very much.

17              Our comments today fall into two  
18      distinct categories, light duty diesel and heavy  
19      duty diesel technology. Fuel efficient is  
20      inherent in the diesel engine, as it is the most  
21      fuel-efficient, internal combustion engine  
22      technology today.

23              While much of the basic emissions and  
24      fuel economy technology is shared in these two  
25      vehicle segments, we believe they are deserving of

1 separate discussion today and consideration, which  
2 is consistent with their treatment within the  
3 IEPR, itself.

4 First, DTF is pleased to note that light  
5 duty diesel technology has been recognized by the  
6 CEC as a valuable tool in the effort to reduce the  
7 State of California's rate of petroleum use. As  
8 we have stated verbally and in writing, the use of  
9 emissions-compliant, light duty diesel vehicles  
10 can increase the fuel economy compared to  
11 analogous gasoline engine platforms by up to 40  
12 percent.

13 We agree that light duty diesel is  
14 deserving of mention alongside hybrid electric  
15 vehicles as a technology that can help California  
16 achieve its petroleum use reduction goals.

17 Moreover, DTF supports the CEC's  
18 position on light duty diesel technology as  
19 outlined in chapter 2, subsection titled light  
20 duty diesels, page 24.

21 We applaud the staff's long-view  
22 approach to this technology. The DTF also notes  
23 and appreciates the numerous positive references  
24 to light duty diesel vehicle technology in other  
25 narrative sections of chapter 2.

1           Earlier iterations of the IEPR  
2           specifically state that light duty diesel vehicles  
3           can reduce gasoline demand by more than 3 billion  
4           gallons a year by the year 2025 using petroleum  
5           diesel. This is at least twice the gasoline  
6           reduction compared to other options listed on the  
7           current table 1.

8           We also believe that its fuel-saving  
9           attributes warrant the inclusion of a specific  
10          recommendation that California rely on increased  
11          market penetration of light duty diesel. At least  
12          one member of DTF has already made a commitment to  
13          market a 50-state compliant light duty vehicle as  
14          early as model year 2008. And I should say, as an  
15          aside, some automakers are even talking about the  
16          2007 model year, but we're using the 2008 model  
17          year just to be conservative on that. And that  
18          would be the introduction of U-LEV-capable diesel  
19          engines in the light duty sector.

20          At the time these models are introduced  
21          California motorists will discover that the modest  
22          additional initial cost of this technology will be  
23          more than offset by the fuel savings.

24          Also, the IEPR suggests, inappropriately  
25          we believe, that the availability of ultra low

1 sulfur diesel fuel is a limiting factor and that  
2 advanced clean diesel technology cannot meet  
3 California's current emission standards.

4 In fact, according to EPA's November  
5 2005 ultra low sulfur diesel compliance report,  
6 more than 90 percent of the nation's refineries  
7 are prepared to provide ULSD starting in June of  
8 next year to meet the October 2006 implementation  
9 sales deadline.

10 And according to a recent January 2005  
11 study by Hart's Downstream Energy Services, 42  
12 percent of all service stations in the U.S. today  
13 already had diesel fuel availability with some top  
14 brand refiners having more than 60 percent  
15 availability of diesel fuel at their retailers.

16 Efforts by staff to segregate light duty  
17 diesel vehicles into some other fuel-efficient  
18 vehicle category unworthy of highlight, which is  
19 what happened in AB -- with the work with AB-2076,  
20 this effort does not, in our view, serve the  
21 purpose of simplicity and clarity in public  
22 policy. Diesel is a technology that is well  
23 recognized and understood, and should stand  
24 independently. This is particular so given the  
25 fuel economy performance of light duty diesel

1 compared to other technologies highlighted on  
2 table 2.

3 So therefore, a recommendation we have  
4 is at some point in the process, and we understand  
5 that we can't change the IEPR significantly today,  
6 other than typos and so forth, at some point we'd  
7 like to see light duty diesel incorporated as a  
8 specific recommendation regarding the reduced rate  
9 of increase of the use of petroleum somewhere  
10 within the IEPR process.

11 I'm going to skip over some of this  
12 other stuff because we've made the point.

13 Now, moving on to heavy duty diesel, as  
14 noted above, we have submitted comments, very  
15 specific comments, about the cost of emissions  
16 compliance technology for the '07 model year in  
17 referencing the '10 EPA federal standards for  
18 emissions.

19 We believe it's important to state here  
20 that the clean heavy duty vehicle industry is  
21 intent on complying with the '07 and more  
22 stringent 2010 federal emissions regulations.

23 Fleets today are already testing dozens  
24 of 2007-generation technology vehicles using 15  
25 parts per million ultra low sulfur diesel. Some

1 manufacturers have demonstrated 2010 emissions  
2 compliance with technology currently in a  
3 laboratory.

4 Representatives of manufacturers  
5 mentioned to the -- I'm trying to get this correct  
6 -- the California Air Pollution Control Officers  
7 Association last January that the heavy duty  
8 industry is determined to meet the deadlines at  
9 costs that will keep the industry economically  
10 viable and its customers satisfied.

11 In addition, the heavy duty diesel  
12 vehicle industry has every intention of remaining  
13 and succeeding in the California market beyond  
14 2010. And has technologies to meet those  
15 regulations which are being demonstrated.

16 And we reference this because of the  
17 original table 1 figure -- and I'm going to now  
18 stray from the written comments, and I'm looking  
19 for the errata -- in chapter 2, page 11, table 1,  
20 we originally noted that the petroleum  
21 displacement for LNG and CNG, medium and heavy  
22 duty vehicles, the original figure was 1.7 billion  
23 gallons a year by 2025.

24 We took note of this primarily because  
25 in at least our calculations indicated if this



1       were to remain in the IEPR, and it is not, we want  
2       to make that very clear, this has been changed,  
3       and we really appreciate the change. But just for  
4       the record, the significance of that original  
5       figure got everyone's attention at DTF because,  
6       according to our math, it would have required all  
7       sales of heavy duty vehicles, medium and heavy  
8       duty vehicles in California after 2010 to not be  
9       diesel vehicles. It would have had to be CNG to  
10      reach that penetration figure.

11               So that, naturally, got everybody's  
12      eyebrows raised, and we brought it to the  
13      attention, at least, of your staff on Friday.  
14      Hopefully that had some impact.

15               But, again for the record, we also very  
16      much appreciate the errata and the correction to  
17      the table, and we want to emphasize again that the  
18      heavy duty diesel industry intends to remain in  
19      the California market beyond 2010, and so  
20      therefore takes note of the change.

21               In summary, and I'm sure you're glad  
22      that we've gotten to that point already --

23               (Laughter.)

24               MR. FULKS: -- we appreciate your time  
25      today, and the work the CEC Staff has put into

1       this. Overall the DTF is very pleased that the  
2       2005 IEPR recognizes an increased use of  
3       emissions-compliant light duty diesel vehicles as  
4       a valuable -- not a Valium -- I could use one now,  
5       I suppose --

6               (Laughter.)

7               MR. FULKS: -- is a valuable petroleum  
8       use reduction strategy. However, this provision  
9       should be enhanced. And we also appreciate and  
10      trust that if there are any other calculation  
11      errors or changes that need to be made that your  
12      staff will seek them out and do it.

13              Diesel remains today as the most fuel-  
14      efficient, internal combustion engine ever  
15      developed. As such it deserves a significant role  
16      in California's energy future; and a fair and  
17      honest assessment of its emissions technology,  
18      costs and petroleum displacement benefits.

19              And for the record, as well, DTF and my  
20      company remain ready to help, or I should say,  
21      work with your staff for the future work next  
22      year.

23              Thank you very much.

24              CHAIRPERSON DESMOND: Thank you very  
25      much. Are there any additional blue cards?

1                   So we have come to the end of the public  
2                   comment process. And at this time I'd like to  
3                   turn to my fellow Commissioners and ask for their  
4                   thoughts and comments.

5                   COMMISSIONER GEESMAN: Mr. Chairman.

6                   CHAIRPERSON DESMOND: Commissioner  
7                   Geesman, go ahead.

8                   COMMISSIONER GEESMAN: Commissioner  
9                   Pfannenstiel took upon her shoulders the task for  
10                  trying to tune up our executive summary. And has  
11                  circulated among the Commission and I believe  
12                  distributed to the public, as well, a revised  
13                  executive summary.

14                 It does not change the substantive  
15                 recommendations in the chapters of the report, but  
16                 I think constructively strengthens the report and  
17                 achieves a smoothness of language that frankly the  
18                 earlier draft lacked in some instances.

19                 So I would incorporate Commissioner  
20                 Pfannenstiel's substitute executive summary,  
21                 replacing that which appeared in the draft.

22                 And other than simply to note the  
23                 extraordinary enrichment that I think I've derived  
24                 personally from having gone through our 60 days  
25                 and listened firsthand to the input from what's

1       now well over 600 different individuals and  
2       organizations in this process, I would move that  
3       we approve the report, with its errata, and with  
4       the amendment to the executive summary that I  
5       mentioned.

6               CHAIRPERSON DESMOND:   Okay.   Questions  
7       or comments?

8               COMMISSIONER BOYD:   Well, I would like  
9       to first just second the motion, so I have the  
10       satisfaction of being the Second Member to have  
11       done that.

12              But let me just say that I want to add  
13       to the Chairman's opening remarks my thanks, and  
14       I'm sure the thanks of the Committee to all the  
15       staff, the organization that worked so hard on  
16       this document.

17              I think Mr. Fulks' testimony proved that  
18       we do listen to people who have points of view.  
19       And that lately we've been a 7-by-24 organization.  
20       So, it was Friday night, and it shows up today,  
21       why we have paid attention to things.

22              I particularly want to again commend  
23       Kevin Kennedy, and mention Kevin and Suzanne  
24       Korosec for the incredible work they've done.  I  
25       asked Suzanne this morning if she perhaps slept

1 here last night in order to produce the errata and  
2 what-have-you.

3 I want to thank all the stakeholders,  
4 the public. As I said I could name five or ten  
5 people who have been very religious in their  
6 attendance. I'm missing today Jane Turnbull of  
7 the League of Women Voters, who I would give the  
8 trophy to --

9 (Laughter.)

10 COMMISSIONER BOYD: -- for the most  
11 consistent attendance at these meetings.

12 I particularly want to thank all the  
13 Advisors, but I want to single out Melissa Jones  
14 and Mike Smith, who are Commissioner Geesman's and  
15 my principal Advisors, for the huge effort they  
16 have made in working with the staff on polishing  
17 and catching input of other Commissioners and  
18 editing and what-have-you. This has been a very  
19 interesting experience.

20 This is my third IEPR, Commissioner  
21 Geesman's second. I think at third you get to  
22 step down. So I look forward to having a free  
23 year next year.

24 But each has been an interesting  
25 experience. As I said the first year when I

1       chaired the 2003 IEPR process, I think the  
2       legislation that provided that this agency do an  
3       Integrated Energy Policy Report, a major report,  
4       every other year with an intervening report on  
5       certain subjects, was a brilliant piece of  
6       legislating strategy in that it provides was is,  
7       in effect, a continuous forum for the debate of  
8       all the issues that we've heard in the past year,  
9       and the issues we heard today that weren't  
10      satisfied.

11               And the fact that it is a continuous  
12      forum, in effect, means that we will keep up with  
13      the changing policies and technologies and what-  
14      have-you. And to those folks who feel their  
15      technology wasn't reflected here, particularly the  
16      nuclear people, I was hoping for some kudos for  
17      even broaching the subject of nuclear.

18               But in any event, there's always the  
19      2007 major rewrite. And who knows what subject  
20      matters we'll pick next year.

21               So this has been -- provided a very  
22      valuable contribution to the debate in this state  
23      about where its energy future should go, and has  
24      facilitated, better than anything I've seen in the  
25      last few years, a tremendous interaction between

1 all the various kinds of stakeholders and agency  
2 such as our own. And I hope it's something that  
3 spreads to other agencies and we get a better  
4 synergism out of this process in the future.

5 So, it's been a distinct pleasure for me  
6 to participate in this process yet again. And  
7 last, but not least, I want to commend  
8 Commissioner Geesman for an incredible investment  
9 of his time and effort and energy in chairing this  
10 and steering this, and helping produce that  
11 massive volume of paper that has been referenced  
12 to. Or having the patience to sit through and how  
13 dare him drag me through 60 days of hearing, but  
14 he did it very ably. And I do commend him for his  
15 efforts and his dedication to trying to do what's  
16 right for the folks of California.

17 So, with that, it's been my pleasure to  
18 be part of this.

19 CHAIRPERSON DESMOND: I'm a little  
20 concerned that in the absence of continued  
21 hearings that the gentlemen from SCE and PG&E are  
22 going to be looking for things to do. So, we'll  
23 maybe announce a next series of 100 workshops for  
24 the 2006 report.

25 I actually have a few comments I wanted

1 to -- and some minor suggestions here that I think  
2 are worth discussing before moving for the  
3 adoption of the entire report. And these are  
4 minor. I have tried only to focus on where I  
5 think there are issues that improve or make them  
6 minor.

7 On page 37 of the report, and this is  
8 actually not critical, but California's electric  
9 system fueling I thought electricity should be  
10 powering the world's sixth largest economy. But  
11 that's purely stylistic, so I'll skip over that.

12 This is cleanup language on the bottom  
13 of page 49 under resource adequacy requirements.  
14 At the end of the paragraph that begins: The  
15 comments received in the resource adequacy  
16 proceeding" the last sentence: To meet the June  
17 2006 schedule and address near-term reliability  
18 concerns, and interim version was adopted and is  
19 being implemented. It will be modified through  
20 time to improve its performance." This is simply  
21 to acknowledge the PUC --

22 COMMISSIONER GEESMAN: Why don't we  
23 amend the errata to incorporate that change.

24 CHAIRPERSON DESMOND: Oh, you did, you  
25 got it. Okay. Continuing, this issue on the



1 next, on page 53, where we deal with  
2 confidentiality, the suggestions I'm going to  
3 offer here are in the interests of trying to  
4 maintain a balance. It's an issue that draws a  
5 lot of passion on both sides. It is also the  
6 subject of a lawsuit.

7 And I have suggested a couple of minor  
8 changes here. In the paragraph that begins: For  
9 the last several years the CPUC's resource  
10 planning process has been shrouded in a high  
11 degree of secrecy" my sense and my preference is  
12 simply to say that the planning process has not  
13 been transparent and only a handful of individuals  
14 are allowed to review.

15 And that the concluding sentence of that  
16 same paragraph: The Energy Commission strongly  
17 believes that this environment of secrecy" I would  
18 suggest lack of public scrutiny, which is not  
19 intended to modify in any way the Commission's  
20 position on this, but I think is intended to just  
21 try and address this.

22 And then lastly on this issue two  
23 paragraphs later that begin: In the case of RPS  
24 procurement, for example," the last sentence  
25 starts: In the secretive environment". I would

1 simply suggest that we replace it with "under this  
2 process it is difficult for Commissioners to  
3 effectively insure."

4 I know that -- those are the only  
5 stylistic changes I have. The other remaining  
6 comments deal with clarification.

7 On page 55, and about the procurement  
8 review group, and perhaps the -- picked it up or  
9 not, but some public interest groups don't  
10 recognize the impact of the PRG process. I think  
11 this is the first time the word PRG appears in the  
12 text, and it just simply needs to be spelled out,  
13 procurement -- group. It does appear later on in  
14 the document.

15 And moving then to CHP. Originally on  
16 page 79, just prior to the conclusion, prior to  
17 the introduction on the section of recommendations  
18 for distributed generation and combined heat and  
19 power, the report calls for the PUC to direct  
20 utilities to provide transmission and distribution  
21 incentives to CHP products in the state.

22 And that's a significant policy change  
23 with cost implications for which, in my reading of  
24 the report at this time, I would prefer that the  
25 PUC evaluate the merits of providing additional

1 transmission and distribution incentives to CHP  
2 projects in the state, rather than simply  
3 directing them to do so.

4 Moving forward in the section on page  
5 83, and there are two other issues. Regarding  
6 clean coal, the language that begins: The Energy  
7 Commission endorses the CPUC resolution with  
8 respect to non-PURPA-based 50 megawatt and larger-  
9 in-size plant loads, I would add: In principle  
10 with respect to non-PURPA-baseload plants." And  
11 then incorporate an additional bullet.

12 And I think this is important because to  
13 be clear, and I'm not suggesting we modify the  
14 executive summary, but there are several  
15 inconsistencies -- just pull up the text here --  
16 within contained in the CPUC's resolution and in  
17 the record in the IEPR proceeding.

18 The CEC's record shows that any fossil  
19 fired generation is capable of carbon capture;  
20 however, the cost of such technologies varies  
21 greatly. The CPUC's acknowledgement of offsets as  
22 possible compliance options under a potential cap-  
23 and-trade framework runs counter to their  
24 resolution language that incorporates a coal-  
25 specific performance standard. Language that

1 holds coal-fired generation to a different  
2 performance standard would likely be subject to  
3 legal challenge.

4 Safe storage of carbon is not defined in  
5 the resolution, nor is cost effective carbon  
6 storage defined. Then, also beyond carbon, the  
7 reference to a combined cycle, natural gas plant,  
8 this is standard, does not acknowledge the  
9 different criteria pollutants, such as mercury,  
10 though not present in all technologies.

11 So, in the recommendation section I  
12 would then add another bullet that says: The  
13 Energy Commission will work with the CPUC to  
14 develop a system that is consistent with the  
15 record at the Energy Commission and the  
16 forthcoming work of the Western Governors  
17 Association Clean and Diversified Energy Advisory  
18 Council.

19 On page 117, I struggled as to where the  
20 appropriate area would be to insert one additional  
21 recommendation on how to overcome transmission  
22 barriers, since it falls under, it could have been  
23 page 116.

24 And here I think that the CEC should  
25 undertake an examination of the broad issues

1 associated with transmission cost allocation and  
2 cost recovery, including beneficiary funding and  
3 incentive ratemaking options as a way of insuring  
4 additional access to renewable energy for  
5 transmission.

6 And then lastly on page 125 of the  
7 report regarding solar, I disagree with the  
8 statement that the failure of the state's PV  
9 incentive programs to bring costs down and the  
10 severe over-subscription indicates that upfront  
11 rebates may not be the most efficient.

12 Rather I think costs of these  
13 technologies are tied to worldwide demand, not  
14 always California incentives. And an over-  
15 subscription might imply a successful program that  
16 warrants justification of a reduction in incentive  
17 levels.

18 So, instead my suggestions are that we  
19 would, in the paragraph that begins: A sound  
20 solar program" the second sentence "instead as  
21 articulated in the 2000 Energy Report update, the  
22 state should include performance-based incentives  
23 where appropriate to promote more cost effective  
24 public funding in terms of long-term energy  
25 generation per dollar of incentive support. A

1 sustainable solar program should also insure that  
2 systems are appropriately installed and  
3 functioning correctly.

4 I have edited this to take into account  
5 two things. One, the mention that I just had that  
6 the failure of the state's incentive program to  
7 bring costs down I don't think is a failure of the  
8 state's incentive program.

9 But also that performance contracting is  
10 appropriate for commercial, but perhaps not  
11 necessarily residential. And we have a need to  
12 look at this. In the public goods charge we  
13 stipulate savings, in high volumes the cost of  
14 residential M&V may outweigh the benefits over  
15 declining incentive over time. And so I'm simply  
16 looking to maintain that flexibility as they  
17 develop it.

18 And so the last suggestion then is on  
19 the concluding paragraph, originally on page 126,  
20 is that we simply -- in the sentence that begins:  
21 Such a program should have consistent funding  
22 levels and establish a performance-based incentive  
23 structure for commercial systems. Period. And I  
24 just struck the word both in residential.

25 And those are the only changes that I

1 have. And if the Commissioners would like to  
2 discuss those now, I'm happy to take any comments.

3 COMMISSIONER GEESMAN: Well, I'm  
4 certainly respectful of your views. I don't think  
5 it's really the right time in our process, though,  
6 to incorporate those types of changes. And I  
7 would suggest that we simply put them into the  
8 various proceedings that we have as works in  
9 progress.

10 This is one that is wrapping up and I  
11 think we ought to wrap it up on the basis of the  
12 60 days that we've held thus far and the text  
13 that's in front of us.

14 CHAIRPERSON DESMOND: Commissioner  
15 Rosenfeld.

16 COMMISSIONER ROSENFELD: Perhaps some  
17 sort of a small compromise here. Chairman Desmond  
18 has mentioned quite a few issues, most of which I  
19 personally would like to see in. But, you've  
20 written the report.

21 On the other hand, in the case of the  
22 reference to the PUC resolution, and the criteria  
23 for clean coal by wire, I must say I found the  
24 CPUC resolution awfully ambiguous. I think  
25 perhaps crafted ambiguously on purpose.

1 I interpret them as wanting not to see  
2 clean coal by wire unless there is carbon capture  
3 and storage. But I think that the way it's worded  
4 it makes even that impossible because of cost/  
5 benefit problems and energy efficiency problems.

6 So, I, myself, would plea to have that  
7 particular change of Chairman Desmond's put in.  
8 And leave you two to figure out the others.

9 VICE CHAIRPERSON PFANNENSTIEL: Joe,  
10 could you repeat then what that change would be?

11 CHAIRPERSON DESMOND: There were two  
12 changes with respect to this area. One was a  
13 notation of the PUC's resolution, and then a  
14 recommendation to work --

15 VICE CHAIRPERSON PFANNENSTIEL: What  
16 page number?

17 CHAIRPERSON DESMOND: Originally that  
18 was on page 84. Could be off on the pagination  
19 here.

20 COMMISSIONER ROSENFELD: And, in  
21 particular, you mentioned a last bullet or third  
22 bullet on page 84, which said effectively that the  
23 CEC would work with the PUC to be more specific.

24 CHAIRPERSON DESMOND: Yes.

25 COMMISSIONER ROSENFELD: I have to say I



1 really liked that.

2 CHAIRPERSON DESMOND: I also want to  
3 respond, Commissioner Geesman, to the notion of  
4 the timing. These are issues that I have  
5 communicated in writing to the Committee, as well  
6 as in emails prior to the adoption and final  
7 production of this document. So I think it is  
8 appropriate that we discuss this here today.

9 VICE CHAIRPERSON PFANNENSTIEL: And  
10 perhaps we can go back through that one that  
11 Commissioner Rosenfeld suggested be raised, on  
12 page 83. I have the sentence: The Energy  
13 Commission endorses the CPUC resolution.

14 And I remembered you said --

15 CHAIRPERSON DESMOND: In principle.

16 VICE CHAIRPERSON PFANNENSTIEL: -- begin  
17 with saying, in principle the Energy Commission  
18 endorses.

19 CHAIRPERSON DESMOND: Um-hum.

20 VICE CHAIRPERSON PFANNENSTIEL: So, is  
21 that the only change on that sentence --

22 CHAIRPERSON DESMOND: That's correct.

23 VICE CHAIRPERSON PFANNENSTIEL: -- and  
24 then you have a recommendation about the Energy  
25 Commission working with the PUC on a greenhouse

1 compliance system. I didn't get the rest of the  
2 wording on that.

3 CHAIRPERSON DESMOND: Yes. There are  
4 two additional. One was following the paragraph  
5 that begins: The second fundamental prerequisite,  
6 the prudent reliance.

7 VICE CHAIRPERSON PFANNENSTIEL: Um-hum.

8 CHAIRPERSON DESMOND: And I had  
9 suggested inserting language that points out, as  
10 Commissioner Rosenfeld has indicated, some of the  
11 difficulties presented by the language as the PUC  
12 adopted it.

13 VICE CHAIRPERSON PFANNENSTIEL: Um-hum.

14 CHAIRPERSON DESMOND: The second then  
15 was a recommendation to include another bullet in  
16 the recommendation section where the Energy  
17 Commission will work with the CPUC to develop a  
18 system that is consistent with the record at the  
19 Energy Commission.

20 VICE CHAIRPERSON PFANNENSTIEL: I think  
21 if we stop with saying with the record of the  
22 Energy Commission. And then you had added the  
23 Western Governors. My concern with that, is I  
24 don't really know where that's going --

25 CHAIRPERSON DESMOND: Correct. In

1 recognizing that, the original letter, I think, to  
2 the Committee and the docket indicated that that  
3 should be informed by the outcome of where they  
4 reside. But it's not critical that that make its  
5 way into the text.

6 So, we're really left with then the  
7 additional bullet. And the draft language I had  
8 suggested was that there are several  
9 inconsistencies contained the CPUC's resolution  
10 and with the record in the IEPR proceeding. The  
11 CEC's record shows that any fossil fired  
12 generation is capable of carbon capture; however,  
13 the cost of such technologies varies greatly.

14 The CPUC's acknowledgement of offsets as  
15 possible compliance options, under a potential  
16 cap-and-trade framework, runs counter to  
17 resolution language that incorporates a coal-  
18 specific performance standard. Language that  
19 holds coal-fired generation to a different  
20 performance standard would likely be subject to  
21 legal challenge. Safe storage of carbon is not  
22 defined in the CPUC resolution, nor is cost  
23 effective carbon capture storage defined.

24 And beyond carbon, the reference to a  
25 combined cycle natural gas plant, as a standard,

1 does not acknowledge the different criteria  
2 pollutants, such as mercury, that are not present  
3 in all technologies.

4 VICE CHAIRPERSON PFANNENSTIEL:

5 Commissioner Geesman, was any of that on the  
6 record in the IEPR? I'm just -- I don't --

7 COMMISSIONER GEESMAN: I think that  
8 reflects --

9 VICE CHAIRPERSON PFANNENSTIEL: -- I  
10 wasn't as close to that record --

11 COMMISSIONER GEESMAN: -- Commissioner  
12 Desmond's opinion of what he heard in the  
13 workshop. I differ with several aspects of that  
14 opinion.

15 But I will say, and I know to some it  
16 will sound strange coming from me, I don't think  
17 it's our task here to critique our sister  
18 Commission's work or their resolutions.

19 And I think that we would be better  
20 advised simply to make the type of observation  
21 that we do on page 23 of the Transmittal Report,  
22 which is the Energy Commission looks forward to  
23 working with the CPUC to implement a greenhouse  
24 gas performance standard as part of the 2006  
25 procurement proceedings.

1                   VICE CHAIRPERSON PFANNENSTIEL: And we  
2     have captured that sentence in the executive  
3     summary. So that we have adopted.

4                   CHAIRPERSON DESMOND: Commissioner, I  
5     would also point out that we don't hesitate to  
6     critique the PUC in many places in our report.  
7     And I don't understand why --

8                   COMMISSIONER GEESMAN: We don't address  
9     decisions or resolutions. We're pretty meticulous  
10    about avoiding that level of criticism.

11                  CHAIRPERSON DESMOND: Well, I think it's  
12    entirely appropriate in my opinion here that if it  
13    is deficient or we find it to be inconsistent,  
14    there is nothing wrong with pointing out areas for  
15    improvement.

16                  VICE CHAIRPERSON PFANNENSTIEL: Joe, if  
17    we did not include your essentially long paragraph  
18    narrative, which is a critique of the PUC's  
19    resolution, and instead pick up the  
20    recommendation, the --

21                  COMMISSIONER ROSENFELD: The bullet  
22    three.

23                  VICE CHAIRPERSON PFANNENSTIEL: -- the  
24    bullet recommendation as you described it.  
25    Doesn't that accomplish what it is that you're

1 attempting to do which is to recommend that we  
2 work with the PUC?

3 CHAIRPERSON DESMOND: Commissioner, if  
4 you include the word in principle, --

5 VICE CHAIRPERSON PFANNENSTIEL: Yes.

6 CHAIRPERSON DESMOND: -- and that  
7 recommendation, then I would agree that, yes, that  
8 could suffice to address the issue.

9 VICE CHAIRPERSON PFANNENSTIEL: John, do  
10 you think that that's --

11 COMMISSIONER GEESMAN: Let's re-read the  
12 recommendation.

13 VICE CHAIRPERSON PFANNENSTIEL: The  
14 recommendation, as I have scribbled it down: The  
15 Energy Commission will work with the CPUC to  
16 develop a system based -- sorry, a system --

17 CHAIRPERSON DESMOND: That is  
18 consistent.

19 VICE CHAIRPERSON PFANNENSTIEL: -- based  
20 on the record at the CEC. But it's a system  
21 for -- I don't have -- what did you have, Joe?

22 CHAIRPERSON DESMOND: I had to develop a  
23 system that is consistent with the record. And  
24 maybe we substitute system of framework, since  
25 there's a lot of elements to that.

1                   So the Energy Commission will work with  
2                   the CPUC to develop a framework that is consistent  
3                   with the record of the Energy Commission.

4                   COMMISSIONER GEESMAN: That certainly  
5                   works for me. Who could object to that?

6                   VICE CHAIRPERSON PFANNENSTIEL: That's  
7                   fine.

8                   CHAIRPERSON DESMOND: Okay. And so on  
9                   page 83, in principle, and then that bullet.  
10                  Which bring us to then the solar question.

11                  COMMISSIONER GEESMAN: Yeah, I have the  
12                  same comment with respect to solar. We have  
13                  several different forums going on now where we can  
14                  address those questions. I suspect we have some  
15                  pretty strong disagreements there. And I'd  
16                  suggest we take up the report as it's submitted.

17                  CHAIRPERSON DESMOND: Well, in the  
18                  interests of time, and knowing that we do have  
19                  those forums, then the only issue then would be  
20                  the modifications to that section.

21                  VICE CHAIRPERSON PFANNENSTIEL: The  
22                  modifications to the PV --

23                  CHAIRPERSON DESMOND: To the clean coal  
24                  section.

25                  VICE CHAIRPERSON PFANNENSTIEL: Oh,

1       okay.  Then the report that's in front of us is  
2       with the --

3               CHAIRPERSON DESMOND:  Together with the  
4       revised --

5               VICE CHAIRPERSON PFANNENSTIEL:  --  
6       revised executive --

7               CHAIRPERSON DESMOND:  -- executive  
8       summary.

9               VICE CHAIRPERSON PFANNENSTIEL:  --  
10      summary, the errata and the change we just made.

11              CHAIRPERSON DESMOND:  Yes.

12              VICE CHAIRPERSON PFANNENSTIEL:  Then I  
13      know the report has been moved and seconded, I  
14      assume, with those --

15              CHAIRPERSON DESMOND:  I'll call for a  
16      vote.

17              VICE CHAIRPERSON PFANNENSTIEL:  --  
18      changes?

19              COMMISSIONER BOYD:  Well, excuse me,  
20      Commissioner Geesman has to modify his motion, and  
21      I'll modify my second accordingly to incorporate  
22      what we just agreed to.

23              COMMISSIONER GEESMAN:  Yes, and I'd  
24      certainly do so.

25              VICE CHAIRPERSON PFANNENSTIEL:  And then



1 before --

2 COMMISSIONER BOYD: Me, too.

3 VICE CHAIRPERSON PFANNENSTIEL: -- a  
4 vote, I'd just like to make a comment, myself.

5 And I'd like to add to other people here  
6 who have thanked and complimented Commissioners  
7 Geesman and Boyd for the work on this report.

8 It does represent a great, I think,  
9 improvement and a great breadth of investigation  
10 over past reports. I think that what we are about  
11 to vote on both recognizes the whole variety of  
12 issues the Energy Commission has faced and is  
13 facing.

14 Adding, you know, I think Jim just  
15 pointed out that he's surprised that people didn't  
16 think we had gone far enough in nuclear. We  
17 brought nuclear in, we brought water in. I  
18 believe that through the 60 days of hearings we've  
19 all been educated a great deal in a whole lot of  
20 issues.

21 But I'd also like to thank them for  
22 involving the public as much as they have. I've  
23 said often that the IEPR process is an opportunity  
24 for virtually every Californian to have a say in  
25 California's energy policy. Whether it's 600

1 individuals, or some number like that, everybody  
2 in California has had a chance to come in and  
3 comment on the part of the energy policy that  
4 interests them, that concerns them. So, I think  
5 we should all recognize that.

6 And having read the report, the total  
7 report all the way through, and some sections  
8 several times, I also want to comment on the  
9 staff, what a wonderful job the staff did  
10 analytically. I mean it's a very strong report  
11 analytically. It contains a great deal of  
12 information, a great deal of analysis and  
13 conclusions.

14 It is, as has been said, essentially a  
15 point-in-time report. It works today, and  
16 probably by tomorrow some of it will be outdated.  
17 So, I also want to point out that it's part of a  
18 process at the Energy Commission, a process of  
19 continual strategic analysis of what's in front of  
20 us.

21 And I hope that as we go forward we'll  
22 be able to continue to meet the standard that's  
23 been held up in this 2005 IEPR.

24 COMMISSIONER ROSENFELD: And, finally, I  
25 just have to climb onto the bandwagon. I've done

1 less work on this than everybody else here on the  
2 dais, but it is truly inspirational. It is a work  
3 in progress. I have some small comments I will  
4 pass on to the Chair for the '06, '07, '08 series.  
5 But it's inspirational. Thank you.

6 CHAIRPERSON DESMOND: With that, and  
7 with those changes, I'll call for the vote.

8 All those in favor of adopting the IEPR  
9 report?

10 (Ayes.)

11 CHAIRPERSON DESMOND: Opposed? So  
12 moved, five-nothing.

13 Next item is the adoption of the  
14 Transmittal Report. Consideration and approval.

15 COMMISSIONER GEESMAN: Mr. Chairman, are  
16 we on the Transmittal Report --

17 CHAIRPERSON DESMOND: Yeah, well, I was  
18 going to move in the order 2, 3 and then 1.

19 COMMISSIONER GEESMAN: Okay. Let me  
20 move the adoption of the Transmittal Report. This  
21 is a creature of our legal staff's interaction  
22 with the CPUC's ALJs and line staff. And a  
23 response to two Assigned Commissioner Rulings that  
24 Commissioner Peevey issued in, I believe, March or  
25 September of 2004 and March of 2005.

1           It has, like many PUC-related documents,  
2   grown in size. But it attempts to be inclusive of  
3   the various quantifications of policy  
4   recommendations from the IEPR, as well as cross-  
5   references to the evidentiary record developed in  
6   our IEPR proceeding.

7           So I would move adoption of the report.

8           COMMISSIONER BOYD: Creature is an  
9   appropriate descriptor here, and I hope in future  
10  years all the agencies learn from this experience.  
11  So I would second the motion to approve this  
12  document.

13          CHAIRPERSON DESMOND: Okay. Further  
14  discussion? If not, I'll call for the vote.

15          All those in favor?

16          (Ayes.)

17          CHAIRPERSON DESMOND: Opposed? So  
18  moved.

19          Last item on the agenda is the adoption  
20  of the 2005 Strategic Transmission Investment  
21  Plan.

22          COMMISSIONER GEESMAN: Mr. Chairman,  
23  this is a relatively streamlined document which  
24  parallels the viewpoint that we believe should be  
25  brought to the state's addressing of transmission

1 issues.

2 It is a new responsibility assigned to  
3 us by the Legislature last year. It does reflect  
4 a significant part of the evidentiary hearings  
5 that we held in the IEPR process, and I would move  
6 its adoption.

7 COMMISSIONER BOYD: Second.

8 CHAIRPERSON DESMOND: Okay. I'd also  
9 note some recent positive developments. Last week  
10 we heard IID announce the construction, or at  
11 least the plan to finance and build the greenpath,  
12 and other sunrise projects. So pleased to see  
13 that progress.

14 COMMISSIONER GEESMAN: Also endorsed by  
15 the Mayor of Los Angeles last week.

16 CHAIRPERSON DESMOND: Excellent. I'll  
17 call for the vote.

18 All those in favor?

19 (Ayes.)

20 CHAIRPERSON DESMOND: Opposed? So  
21 moved.

22 Unless there's any other business I  
23 would like to thank again the Commissioners,  
24 particularly Commissioner Geesman and Commissioner  
25 Boyd, for the outstanding work on this document,

1       and the work of the public stakeholders in this  
2       process.

3               With that, this business meeting is  
4       concluded. Thank you.

5               (Whereupon, at 12:18 p.m., the special  
6       business meeting was adjourned.)

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## CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter,  
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